GASCON MAR LTD.

PROPOSAL TO

McDONNELL DOUGLAS REALTY CORPORATION

JANUARY 27, 1995

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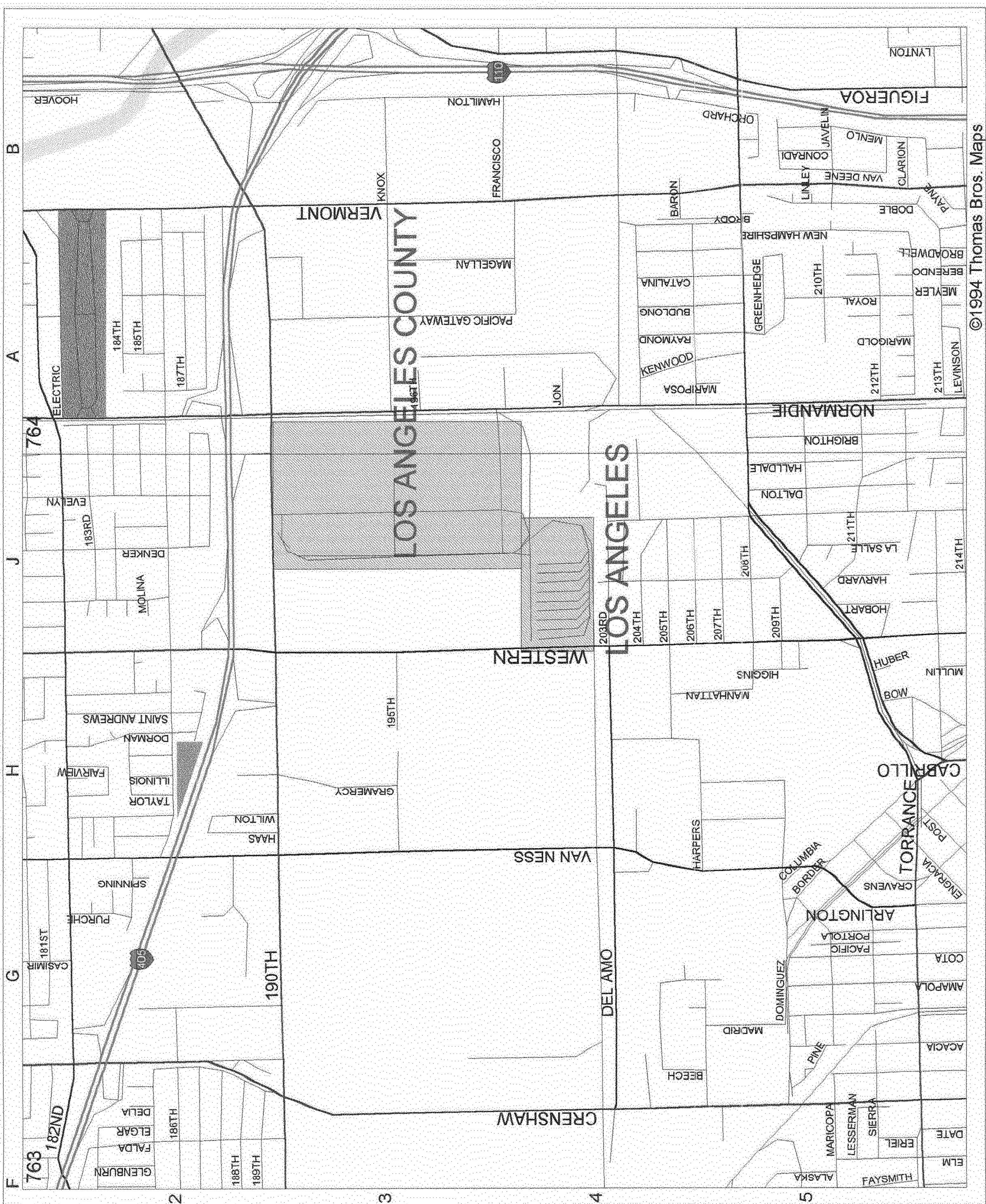

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190TH STREET CORRIDOR

MAJOR OFFICE BUILDINGS

1. Gramercy Plaza
2. Alpine Electronics Headquarters
3. Hughes Aircraft
4. Toyota Administrative Center
5. Lexus Headquarters
6. Toyota U.S. Corporate Headquarters
7. Toyota Technical Center, U.S.A., Inc.
8. Toyota Service Development Center
9. Torrance Business Center
10. Western Plaza
11. South Bay Center
12. South Bay Corporate Center
13. Normandie Business Center
14. I² Corporate Center
15. OMA Building
16. Harborgate Building
17. Gateway Towers East
18. Gateway Towers West
19. Gateway I
20. Gateway II
21. Andrex Point
22. Nissan U.S. Corporate Headquarters
23. Harbor Gateway Garden Office Park
24. South Bay Technology Center
25. Harbor Corporate Centre
26. Nikon Regional Headquarters
27. Wherehouse Entertainment
28. Harbor Business Center
29. Ashton-Tate Building
30. Los Angeles County District Attorney
31. Harbor Technology Center

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Gascon Mar Ltd.

January 27, 1995

Mr. Thomas A. Overturf, Director, Development
McDonnell Douglas Realty Corporation
4060 Lakewood Blvd., 6th Floor
Long Beach, CA 9080-1700

RE: **McDonnell Douglas Facility**
190th Street and Normandie Avenue

Dear Mr. Overturf:

On behalf of Gascon Mar Ltd., I am pleased to submit the attached proposal for your consideration. I also enclose copies of the Plans on two of our other projects, Torrance Center and Golden Eagle, which are fully approved. As you will see, simplicity and flexibility of uses are key.

You will note that apart from our financial proposal, background and qualifications, I have included some preliminary ideas on the possible uses for the property. I think it is important you select someone not just on the basis of their qualifications and area knowledge, but also on the basis of their concepts.

It is hard to predict how much the first phase work, the Highest and Best Use study, will cost. It depends on what degree of justification you need corporately for the selected use by way of economic studies and projections. After some discussion with you, we could establish a budget and timeline forthwith. At a minimum, I see the involvement of land planners and civil and traffic engineers at an early stage.

As references for Gascon Mar Ltd., you might want to talk to senior officials of two South Bay cities, LeRoy Jackson, City Manager of Torrance (618-5880), or Pat Brown, Director of Community Development for Carson (830-7600). For a user reference, Sandy Smith, National Real Estate Director of Toyota will be an important factor in this project (618-5442).

2050 W. 190th Street, Suite 201, Torrance, California 90504 • (310) 782-2525 • FAX (310) 781-9253

I look forward to your comments.

Yours very truly,

GASCON MAR LTD.

Allan W. Mackenzie
Partner

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GASCON MAR LTD.
PROPOSAL TO
McDONNELL DOUGLAS REALTY CORPORATION
JANUARY 27, 1995

(1) SUMMARY:

McDonnell Douglas owns an 170 acre facility located between Western Avenue and Normandie Avenue, fronting on 190th Street, in the City of Los Angeles. This facility has been declared surplus, and McDonnell Douglas wishes to redevelop the property. McDonnell Douglas Realty Corporation is inviting proposals from developers to develop a reuse strategy and manage the redevelopment of the site. Gascon Mar Ltd. ("GML") proposes to provide redevelopment coordination services to McDonnell Douglas to undertake the following:

(a) Highest and best use studies.
(b) The coordination of land use entitlement processing.
(c) The coordination of environmental remediation.
(d) Coordination of site improvements.
(e) Ongoing development and marketing oversight.

GML believes that its experience as an active developer, fully familiar with the selection and utilization of a diversified consultant team, and with a track record involving every type and stage of the real estate development process, uniquely qualifies it to serve McDonnell Douglas. As a developer rather than a consultant or asset manager, GML routinely provides direction for complex projects involving use changes, and marketing and development strategies.

(2) GASCON MAR LTD. BACKGROUND INFORMATION:

GML is a Torrance and San Diego based development company. Currently, GML has five major projects either completed or underway in the South Bay area, and additional projects in San Diego and Las Vegas. These range from single family detached housing

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to business park environments with office and R & D space. GML brings the following specific strengths to an involvement on the subject property:

(a) DEVELOPMENT AND MARKETING EXPERTISE: As a currently active developer and builder, GML is intimately aware of market conditions and constraints. GML's projects historically and currently maintain a high level of occupancy, a result of aggressive marketing strategies and implementation. Despite present-day adverse financing conditions, GML has over the past years obtained both equity and debt financing on both residential and commercial projects from local and offshore sources.

(b) EXPERIENCE IN LAND USE PLANNING AND THE SUBDIVISION PROCESS: Over the past 20 years the two principals of GML, while at GML or in previous employment, have been responsible for land use entitlements and subdivision for approximately 16,000 residential lots and many hundreds of acres of commercial land. This familiarity includes active involvement in Redevelopment Projects and successful negotiations on governmental financing.

(c) EXPERIENCE IN SELECTING AND UTILIZING KEY CONSULTING TEAMS: A key expertise of GML is the ability to muster and coordinate a diversified consulting team. The complexities of any real estate project require diverse talents seldom found in any one organization. GML's active experience as a developer and asset manager enables it to do the following:

   (1) Select appropriate consulting team members from the substantial resource of talent available in the market area.
   (2) Direct and coordinate this consulting team to ensure cost effective and results oriented work product.

   GML's most active project, Downtown Torrance, although only medium sized in scope ($45,000,000) has required the coordination of 43 separate consulting firms due to the extraordinary diversity of the project.

(d) EXPERIENCE IN COORDINATION OF ENVIRONMENTAL REMEDIATION: GML has supervised and undertaken the remediation of a steel works, a tubing plant and an oil refinery, all the while taking these properties through the land use entitlement process. Specifically, Gascon Mar Construction, Inc. ("GMCI"), GML's construction subsidiary, was the general contractor on the largest hydrocarbon remediation project currently being undertaken in California, if not the United States. This project, in Carson, involved the excavation and treatment through land farming, mixing, vapor extraction, and bioremediation of approximately 1,300,000 cubic yards of material, a process which took 2-1/2 years from late 1991 to mid 1994. GMCI has all the requisite licenses to undertake such work. In addition, GML has coordinated the services of many of the largest environmental consulting firms, as well as specialist environmental subcontractors. GML has excellent relations with key State agencies, including the highest levels of the Los Angeles Regional Water Quality Control Board ("RWQCB"), and certain elected officials with jurisdiction over environmental issues.

GML is currently finalizing a joint venture with Fluor Daniel Environmental Services of Irvine, probably the environmental consultant most proficient in the use of Risk Assessments in the region, to jointly work on the recycling of major industrial sites.

(e) FAMILIARITY WITH LAND OWNER JOINT VENTURES: GML has been involved in numerous joint ventures, and is currently involved with ANA Real Estate USA, Inc., the real estate subsidiary of All Nippon Airways, on two projects. Other partners include the real estate subsidiary of Weyerhaeuser Corporation, Pardee Construction Company, and Lasmo America Ltd., a subsidary of Lasmo PLC. The latter two situations involve joint ventures with long-term landowners or their corporate affiliates.

(f) ECONOMIC DEVELOPMENT: A specific interest of GML is in promoting economic development, and we are developing considerable familiarity with various governmental programs which might assist such activity, as well as spearheading the efforts of certain groups in this regard. GML's leadership has enabled it to achieve recognition from elected and appointed officials at all levels of government.

(3) **PROJECT TEAM:**

The GML project team will be headed by Allan W. Mackenzie, Partner in charge. Mr. Mackenzie holds a Master's Degree in Land Economics from Cambridge University, and is a member of the largest United Kingdom based real estate professional organization, The Royal Institution of Chartered Surveyors. He has 20 years experience in commercial real estate in both Canada and the United States. This experience includes real estate consultancy, and development and management of all types of real estate product. Mr. Mackenzie has served as a professional witness and a court appointed arbitrator on real estate related disputes. Neil Gascon, GML's other principal, will also be involved. Prior to starting his own company in 1985, Mr. Gascon was President of the Penasquitos Properties Division of Genstar Corporation. Penasquitos was, at the time, the second largest land owner in San Diego County. Mr. Gascon is a Certified Public Accountant.

(4) **GASCON MAR LTD. ROLE:**

For each task, GML anticipates taking a primary role subject to McDonnell Douglas approval of a plan as well as overall direction as desired. GML has identified the following key tasks:

(a) PREPARATION OF HIGHEST AND BEST USE STUDIES: The extent of such studies would be a function of the development concept for the site. A highest and best use study would include the following elements:

(1) Analysis of economic projections, market conditions, absorption rates, and residual values.

(2) An analysis of land use constraints, including a review of planning and zoning requirements and the solicitation of the views of key community, elected and appointed representatives.

(3) An analysis of the conversion and development costs, including on-site and off-site improvement costs, as well as a timeline for incurring these costs.

(4) The documentation for the highest and best use study would be a function of the detail required, but consultant resources anticipated to be tapped, together with some examples of competent firms with whom GML has previously worked, and would be suitable for this project, include the following:

(a) Market Study Specialists (Al Gobar & Associates, Economic Research Associates).

(b) Market Valuation (Landauer Associates, The Seeley Company, CB Commercial, Cushman & Wakefield).

(c) Land Planners (PBR, Nadel & Associates).

(d) Environmental Review (soils, groundwater and asbestos: SCS Engineers, McClaren Hart, Fluor Daniel).

(e) Traffic Engineers (Barton Aschman, Linscott, Law & Greenspan).

(f) Civil Engineers (Psomas, South Bay Engineering).

(g) Legal (Latham and Watkins).

(5) A key aspect of finalizing the study would be a clear understanding of McDonnell Douglas's corporate objectives and constraints.

(b) COORDINATION OF LAND USE ENTITLEMENT PROCESSING: Once one or more alternate land use plans have been selected, GML would bear primary responsibility for all entitlement work, including coordination of the design and consulting team (land planners, architects, civil engineers, traffic engineers and land use attorneys), negotiations with all governmental agencies, coordination of all public meetings and hearings, etc. An important part of this process in the case of the subject might be the attempt to have the property and adjacent properties designated as a Redevelopment Project. This could facilitate land assemblage (Capital Metals) and open the door to tax increment financing.

(c) COORDINATION OF ENVIRONMENTAL REMEDIATION: To the extent required by McDonnell Douglas, GML would be available to coordinate all consultant and agency negotiation, and the actual physical remediation. GML's experience on several multi-million dollar remediation projects suggests that an aggressive contractor-led remediation process can yield substantial savings over the typical consultant- led project, where high personnel costs and inefficient manpower and equipment coordination can result in premium costs being paid. This is particularily true the larger the scale of the project.

(d) COORDINATION OF SITE IMPROVEMENTS: This would include the coordination of all physical improvement work to the property, including demolition, grading, site infrastructure installation, including streets, landscaping and wet and dry utilities.

(e) ONGOING DEVELOPMENT AND MARKETING: This could include coordination of a lot sales program, build-to-suit acitivity and even a speculative building program.

(5) **GASCON MAR LTD. COMPENSATION:**

GML proposes the following compensation structure for each of the above tasks. The complexity of the project and the lack of a clear task description and responsiblity allocation suggest that these figures are guidelines only, subject to detailed discussion. Where possible, GML believes that a compensation arrangement should provide each party with adequate incentive, and have the following elements:

(a) Reimbursement of GML's direct costs expended on the project.

(b) A fee which is incentive linked, i.e. by way of some participation in sales proceeds or value increases over a predetermined basis.

GML believes any agreed compensation should be structured in a way that rewards GML based on the maximization of the return to McDonnell Douglas. A straight hourly and time or materials arrangement may work counter to McDonnell Douglas's interest.

Within these constraints, GML proposes the following:

(a) HIGHEST AND USE STUDY: This element represents the key initial task, and the commencement of what may prove to be a long term relationship. It is the most difficult to predict in terms of scope, since the extent of McDonnell Doulgas's need for third party justification of the selected use is not known at this time, and it is also the hardest to quantify in terms of a value increase to the property. Accordingly, GML proposes an hourly fee based on the following schedule:

Partner:	$150 per hour
Project Manager:	$ 90 per hour
Construction Manager:	$ 75 per hour
Construction Superintendent:	$ 65 per hour

Accountant:	$ 90 per hour
Financial Analysts:	$ 50 per hour
Secretarial:	$ 35 per hour

All consultant and out-of-pocket expenses would be charged through at cost without markup. It is anticipated that virtually all of GML's work in this critical area would be handled at the partner level.

(b) COORDINATION OF LAND USE ENTITLEMENT: GML would propose compensation to be paid by a participation in the increase in value resulting from GML's efforts, namely based on an independent third party valuation of the property on an existing basis without any land use entitlements, as compared with a valuation with all land use entitlements in place. GML would be entitled to a minimum monthly fee based on a direct cost recovery at a lower rate than calculated above, which amount would be applicable to a 20% share in the increase in value resulting from its efforts, after deduction of an imputed preferred return on the going-in value.

(c) COORDINATION OF ENVIRONMENTAL REMEDIATION: GML through its construction subsidiary, Gascon Mar Construction, Inc., ("GMCI") would charge a normal construction fee to coordinate and contract out all remediation activity. This fee, depending on the dollar amount of the work, would be between 3% and 5%, together with general conditions to recover direct costs, excluding office overhead. Preconstruction, consultant coordination and agency negotiation would be charged on an hourly basis.

(d) COORDINATION OF SITE DEVELOPMENT: GML, through its subsidiary, GMCI would charge normal construction coordination fees, anticipated to be between 3% and 5%, together with reimbursement of general conditions costs.

e) <u>ONGOING DEVELOPMENT AND MARKETING:</u> GML would propose compensation for this task to be similar to that for the coordination of land use entitlements.

(6) **<u>SCHEDULE:</u>**

GML is available to commence this work immediately, and could prepare a time line for these tasks upon McDonnell Douglas's request.

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McDONNELL DOUGLAS PROPERTY
190TH STREET AND NORMANDIE AVENUE
PROPERTY AND MARKET OVERVIEW

(1) **CURRENT PROPERTY STATUS:**

Currently, the subject property is partially utilized. It is anticipated that all utilization of the site will have ceased by the end of 1997. Consequently, allowing for demolition and remediation, it is anticipated that the entire site will be developable by the year 2000, although portions could be utilized sooner depending on the schedule for demolition and any required remediation.

The site is both zoned and designated in the General Plan for industrial use.

(2) **SITE CHARACTERISTICS:**

In determining appropriate reuse possibilities for the site, certain key characteristics of the site and its location should be taken into account:

(a) The site is situated in the City of Los Angeles. This creates some negative issues with regard to security, schools, business taxes, and governmental response over, for example, a location in Torrance to the west. However, a project which because of its scale and public benefit obtains strong support and encouragement from the Mayor and other key elected officials could benefit from the sheer size and influence of the City. Undoubtedly, the City officials are likely to be supportive of a major redevelopment project at this time if it is seen to be revenue and employment enhancing.

(b) The project is well located at the influence of two major freeways, the San Diego and the Harbor Freeways. This provides 30 minute access to key business centers such as Irvine in Orange County, West Los Angeles, and Downtown Los Angeles.

(c) The site is located in the heart of the South Bay, equidistant from the Los Angeles/Long Beach Port Complex and the Los Angeles International Airport, thus well located for companies involved in international trade.

(d) All types of housing are available within a 20 minute radius, from high income estates and beach oriented homes, to affordably priced single family and multi family dwellings. A diverse labor pool is also available; as home to the aerospace industry, the South Bay has a highly trained workforce.

Most importantly, the subject property, particularily when combined with the International Light Metals site, comprises probably the largest contiguous development opportunity in the City of Los Angeles south of the Santa Monica Mountains with the exception of Playa Vista. This, coupled with its location and the quality of surrounding development, creates an unique opportunity for a master planned site to provide occupants the type of environment which can typically only be found in the San Fernando Valley or in Orange and Riverside Counties.

(3) <u>CONSIDERATION OF HIGHEST AND BEST USE:</u>

While a full highest and best use study would be the subject of a detailed work product, it is possible to arrive at some preliminary conclusion based on currently anticipated demand and supply factors. A site of this magnitude could take many years to be absorbed, yet real estate cycles are typically of much shorter duration. Consequently, a long term demand and supply analysis is in order.

Certain trends are apparent:

(a) All projections indicate that the Los Angeles area population will continue its dramatic growth. An increasing birth rate will put pressure on school systems and the social service infrastructure.

(b) Key sectors of the economy are anticipated to remain strong. In particular, trade, professional services, the entertainment industry, high technology based industries and textile/garment manufacturing are often cited as likely to play lead roles in the economy.

(c) Increasingly, employment growth will be concentrated in small to medium size companies who are less location sensitive than their predecessors, their facility site being determined more by personal preference than by traditional economic factors such as infrastructure, or labor availability, or proximity to their customers. This is a function of the decline in importance of traditional heavy manufacturing, and the growth of information based industries, professional services, or high value production industries, combined in dramatic advances in information transfer.

(d) As a result, quality of life issues for residents and workers will become increasingly important, since these will play a greater role in locational decisions.

(e) The fully developed nature of southern Los Angeles city and indeed most of southern Los Angeles County will preclude entry into the market of large master planned sites such as the subject property.

An analysis of every key property type follows:

(1) RESIDENTIAL: In today's market, values for residential property are equal to or in many cases higher than for commercial or business park land. Residential builders will bid from $8 to $15 per square foot for subdivided and improved land, depending on the density approved; affordable housing is still in relatively short supply, and longer term population projections indicate little to reduce the demand for this product. However, the use of the subject site for residential raises several issues, including the following:

(a) Justification for residential use needs to reflect an evaluation of long term trends, and not just current values; four years ago corporate business park land commanded prices double those paid for residential land.

(b) The site is zoned and designated for industrial; the City would have to approve a change in use to residential, which has a negative fiscal impact due to the high level of services in relation to revenues produced, as opposed to commercial or industrial uses, which have a positive fiscal impact. Resistance is expected because this would represent the loss of one of Los Angeles's last remaining commercially and industrially zoned sites at a time when economic development and revenue generation are of paramount importance to the City.

(c) The project is situated in the Los Angeles Unified School District area, traditionally the least attractive school district in the South Bay. The quality of education is an important influence in locational decisions of child-rearing home buyers. In addition, poor police response times in the Los Angeles strip due to the distance from the Wilmington and South Central police substations have created a security problem particularly notable south of the site and east of Western Avenue.

(d) With Risk Assessment being the currently approved method of determining the level of remediation required, and with it the requirement that incremental life time cancer risk resulting from material left on or under the site be lower than one in one million, the much greater exposure of an on-site resident as opposed to an on-site worker to residual contamination can result in significant differences in required remediation. Additionally, agencies active in buying or underwriting mortgages, including Fannie Mae, FHA, and VA, take an extremely conservative approach to environmental issues when approving projects or even if they do approve them, significant disclosures are required, which can act as an impediment to sale or financing, as well as a potential invitation to future litigation.

(2) <u>RETAIL</u>: Current retail values in the vicinity are estimated to be $9 to $16 per square foot for larger users, and up to $30 per square foot for pad users. In 1990, power centers developed nearby (the Hawthorne Gateway and The Torrance Crossroads) generated sales values to anchor tenants in the high $20 per square foot range. However, the declining real estate market and declining retail sales, increased retail competition as the market nears saturation and the passage of AB 1290, eliminating the ability of Redevelopment Agencies to pledge sales tax to achieve a site buy-down, all have combined to dramatically reduce the price retailers are prepared to pay. Key attributes of the site for retail use include the following:

(a) The site has good exposure to the San Diego Freeway, the dominant regional freeway with 260,000 cars per day in the vicinity.

(b) Current demand exists from key users for a power center type development. Although some of this demand may be satisfied by the power center being developed on the Golden Eagle site, two miles to the southeast, key users who are competitive to the anchor users for that center will still need to be accommodated. It is believed that based on today's market conditions and today's retail concepts, about 400,000 square feet on 40 acres would be the optimum size for a power center; ongoing and unpredictable evolution in retailing could open up completely new opportunities in the future.

(c) Although the population density in the vicinity is not very high (9,644 in 1 mile radius), stronger 5 mile demographics (578,189), a shortage of neighborhood retail space, and strong performance by existing area supermarkets, suggest that a community oriented market/drug center, comprising approximately 100,000 square feet on 10 acres, could also be accommodated, to the extent that these users are not included within the power center.

(d) Pad restaurant users and possibly also a future hotel use might be viable due to a shortage of restaurant space, and high occupancy rate on existing South Bay hotels likely to increase with increasing international trade and business support in the area. The site is obviously well located for these uses.

(e) It should be noted that if the ILM site is developed as retail, this will take away the possibility of power center retail on the subject site. For reasons of freeway exposure, driveway access,

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neighboring uses and site configuration the ILM site is not considered to be the best location for a Power Center on the combined 230 acres.

(3) WAREHOUSING: With occupancy rates beginning to climb, speculative development of warehouse space is once again being contemplated, but at land values of $7 per square foot or less. In the late 1980's, higher rents resulted in values of $10 per square foot being achieved, but this cost burden accelerated new development in the Inland Empire. Notable features of this use include the following:

(a) Dramatic increases in international trade are anticipated as a result of increasing United States population and enormous economic growth in Asian countries. Infrastructure improvements at the ports and resulting from such projects as the Alameda Corridor will benefit trade in the area.

(b) Although this might indicate warehousing demand may increase, particularly for modern Class A warehousing, it is possible that just-in-time ordering strategies and an improved transportation interface at the docks may reduce the potential increase in warehouse demand.

(4) CORPORATE OFFICE/LIGHT INDUSTRIAL/R & D: These categories would typically occupy space on stand alone sites or in master planned business parks. In the South Bay, a pricing premium over the former has been achieved by the latter, due to the perceived benefits of a controlled and homogenous environment, as well as enhanced amenities, security and expansion potential typically offered in business parks. On 190th Street, land values ran up from approximately $8 to $10 per square foot in the early 1980's, to a high of $35 to $40 per square foot in 1990. Since then, the few sales taking place have been in the $9 to $12 per square foot

range for comparable property. A substantial increase in user activity recently indicates that prices may start increasing, particularily as the limited extent of developable land becomes more apparent. Justification for this land use includes the following:

(a) Although a substantial oversupply exists in speculative office space throughout the Los Angeles basin, a large proportion of this space is not suitable for users with a diversified operation and a variety of space needs under one roof.

(b) The opportunities for development of a large scale master planned campus park environment, of the type favored by emerging technology based companies, are extremely limited, due to the shortage of large land parcels.

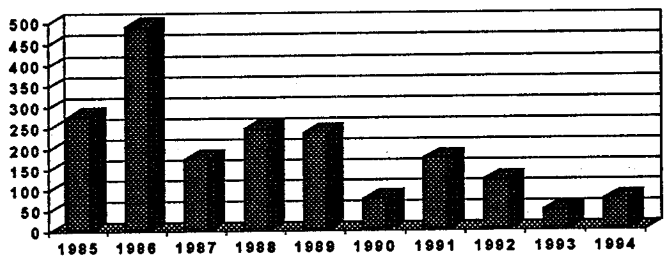
(c) As a result, many companies seeking sites in an attractive business park environment with a strong location, have chosen to relocate to Orange County and other areas. Recent studies, including the September 1994 New Economy Project undertaken by David Freidman and the September 1993 Regional Comprehensive Plan for the South Bay Subregion, have alluded to this shortage of developable land in campus-style business parks as one of the reasons for companies choosing to move out of the area.

(d) Economic projections indicate medium to long-term employment growth in a number of sectors, including business services, entertainment and multi-media, international trade, technology, etc.; these are all activities which would locate in business parks.

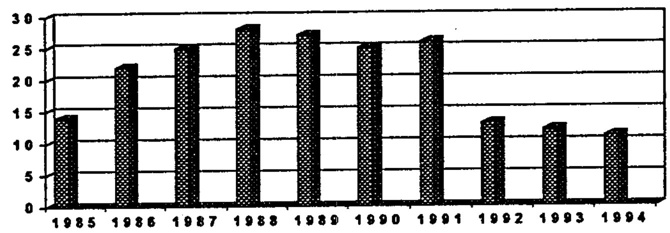
(e) Just as homeowners feel more secure in a controlled or gated community, workers are exhibiting a preference for master planned and controlled environments as opposed to stand alone sites.

(f) The area is particularily attractive to Japanese companies because of the location and support infrastructure. These companies are notably sensitive to environmental factors and long term investment potential.

TOTAL LAND SALES
CENTRAL TORRANCE/190TH
STREET CORRIDOR



AVERAGE SALES PRICE PER SQUARE
FOOT
(5+ ACRES)
CENTRAL TORRANCE/190TH STREET
CORRIDOR



(4) CONCLUSIONS AS TO HIGHEST AND BEST USE:

A preliminary analysis as indicated above would suggest that use of the site for a high-end campus-like business park, with the possibility of 40 to 60 acres being reserved for retail or commercial use, appears to be a viable approach. This is also likely to be attractive to the City of Los Angeles. In the development of this facility, certain factors should be borne in mind.

(a) As noted early, a large proportion of the likely occupants are those fast growing companies identified earlier, and personal convenience and preference are at or near the top of their key criteria for site selection. Recent studies by Cognetics, Inc. on the site ranking criteria of fast growing entrepreneurial companies ("Entrepreneurial Hotspots") dramatically illustate this.

(b) The project should be actively promoted to City and Regional elected officials as a high profile, 21st Century technology oriented development, the premier such environment in the City of Los Angeles. The City should be encouraged to consider some special designation to reduce utility and gross receipts taxes, pronounced negatives in Los Angeles.

(c) The most contentious issue is likely to be traffic generation, and the extent of offsite mitigation required by the City and by the CMP. Implementation of the CMP requirements, in particular, will be an important issue, and may require innovative transportation solutions.

(d) The establishment of a Redevelopment Project area to facilitate financing of infrastructure should be considered.

(e) Physical aspects of the park which are considered to be important include the following:

(1) A master planned environment with extensive landscaping as a counterpoint to the typically stark Los Angeles environment.

(2) Consideration should be given to installation of some key feature such as a 9 hole golf course or other similar recreational feature, creating a landmark, enhanced marketability (especially to Pacific Rim users), and

some revenue potential. It would also assist in storm water retention, likely to be a key design requirement.

(3) Infrastructure upgrades, including enhanced communications, potential, such as fiberoptics, ATM and ISDN capability, video conferencing, etc. should be provided.

(4) Utility deregulation could provide opportunities for private utility districts which could pass on substantial savings to users, or at least the capability to negotiate bulk purchases from the existing suppliers.

(f) Amenities, such as restaurants, financial services, heath facilities, daycare, as well as business and incubator services should also be provided, particularily if it is believed small and medium sized companies may form a large component. The size of the project would create economies of scale suppliers to ensure the viability of such enterprises.

(g) Public services which could be included as additional marketing tools include an LAPD police substation, a telecommuting center, and university extension facilities.

(h) The above comments assume that some cooperative arrangement is reached with developers of the ILM site. As noted before, area masterplanning would suggest that the major retail would best belong on the McDonnell Douglas property, but this is not the current direction of Martin Marietta, who are going ahead with plans for retail on their site. Joint masterplanning is also critical to ensure that traffic capacity is allocated on an equitable as opposed to first come/first serve basis.

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GOLDEN EAGLE CENTER
CASE STUDY
JANUARY 25, 1995

(1) TIMING:

1985: Oil tanks removed.
1987: Abortive sales escrows with the Koll Company and Cabot, Cabot & Forbes.
1989: GML selected as developer, to coordinate land use processing and marketing, in return for share in upside over raw land value.
1991: Site remediation commenced.
1991: GML affiliate purchased property with financing from Golden Eagle, to assist Golden Eagle in utilizing net operating loss carry forward.
1994: Soils remediation completed.
1994: First escrows with end users opened.
1995: Preparatory to third party sale, GML sold property back to oil company and transaction restructured as development role with participation in upside.
1995: Groundwater treatment system installed.

(2) GML ROLE:

(a) Coordination of land use entitlements.
(b) Supervision of marketing.
(c) General contractor on remediation subject to control by Golden Eagle consultants.
(d) Facilitator of contacts with key state elected and appointed officials to accelerate remediation.
(e) Contractor on site improvements.
(f) If build-to-suit projects undertaken, GML to be developer for fee participation and profits.

(3) KEY SITE ISSUES:

(a) Traffic generation, including freeway ramp capacity.
(b) Congestion Management Program issues.
(c) Use of Redevelopment Agency financing to assist in off-site improvement costs.
(d) Jurisdictional dispute between Department of Toxic Substances Control and Regional Water Quality Control Board, resolved in part by legislation.
(e) Poor environmental consulting, assisted by short sighted strategy in dealing with agencies by original oil company, evidenced by spiraling costs ($5,000,000 to $40,000,000 in 3 years).
(f) Market value declines.
(g) Simultaneous processing of two alternate land plans to maintain flexibility (Plan A Corporate Office/Industrial, Plan B Retail).

(4) **GML COMPENSATION:**

(a) Monthly Development Fee: $15,000 - $20,000 depending on activity.
(b) Profit Participation: Initially 25% - 35% of upside after imputed preferred return. Subsequently 5% to 12% of sales proceeds depending on price achieved.

(5) **RESULTS:**

1989 Baseline: - Raw land
- No sales activity
- Complete breakdown in communication with environmental agencies preventing remediation commencement.

1995 Current: - Fully approved Specific Plan.
- Offsite financing verbally approved.
- Soils remediation completed; groundwater remediation system being installed.
- 25% of property in escrow to anchor user, another 25% in negotiations.

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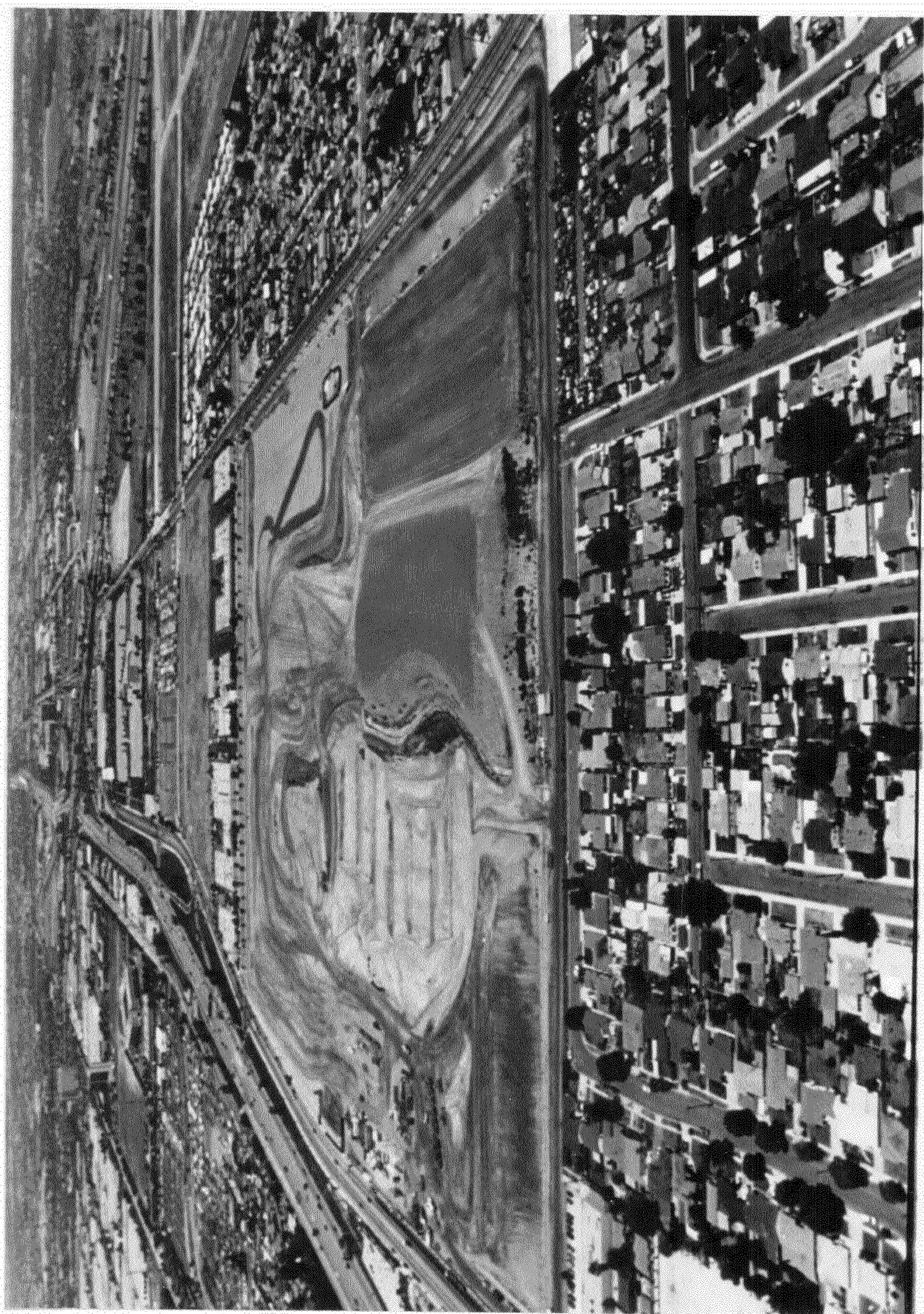

5

THE NEW VISION BUSINESS COUNCIL OF SOUTHERN CALIFORNIA

THE NEW ECONOMY PROJECT

FINAL REPORT

Presented to:

The Los Angeles Community Redevelopment Agency
The Los Angeles Community Development Department
The Los Angeles Department of Water and Power
AT&T

September 16, 1994

David Friedman
Project Director

TABLE 9: Reasons Cited by Founders for Opening A Firm in Los Angeles County

Convenience (founder lived, educated, or worked in region)	78%
To Be Near Companies in the Same Industry	24%
Proximity to Clients and Markets	15%
Growth Potential-Good Business Climate	15%
Infrastructure-Ports, Freeways, Airports, etc.	10%
Quality of Life (weather, crime, etc.)	10%
Labor Availability	7%
Proximity to Suppliers	6%
Proximity to Pacific Rim	3%
To Promote Exports	1%

10% or less cited "economic" factors such as infrastructure, labor availability, suppliers, or proximity to the Pacific Rim as playing a role in their decisions.

These results contrast sharply with popular theories of how to build, or rebuild, Los Angeles and other urban economies. While there has been much public policy discussion about fostering exotic new technologies, infrastructure investment, and other major public initiatives, the real source of business vitality is enabling individuals to accumulate the economic wherewithal to open firms and exploit their ideas in the marketplace. If the past as reflected in the survey responses is any guide, the easier it is for motivated individuals to open businesses and begin to exploit their ideas, the more the regional economy–including local revenues and employment–will benefit.

It is true that, to some extent, purely economic factors can draw firms into a region or stimulate startups. Both entertainment (53%) and aerospace (60%) founders cited being near other firms in their industry as the most important factor in locating in Los Angeles. This makes sense given the concentration of unique industrial resources in both sectors that the region supports.

In other areas, such as biomedical (100%) and software (81%), personal convenience overwhelmed all other startup locational factors. Firms in each of these industries are typically initiated by highly educated individuals, who are looking to exploit specialized knowledge and create a marketable product. More often than not, when starting out the new company could be located in several different places.

In the past, Los Angeles greatly benefited from the fact that many entrepreneurs found the region congenial for beginning a firm. As described in Section IV, however, unless attempts are made to reverse the process, this perception will continue to substantially erode. A critical public policy concern involves refashioning economic development policies in a way to meet real industrial needs, a major factor in rebuilding business confidence in the region.

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government reporting burdens of their clients, they are able to reap substantial profits from their expertise. While most would not benefit from regulations that severely depressed the region's overall industrial base, the link between regulatory rollbacks and a firm's individual interests is far more complex than the simple notion that all government mandates are opposed by business.

Tax and other employment or locational incentives can further create the perception and reality of substantially unfair economic relationships in the region. Most tax roll back schemes, for example, favor designated kinds of activities, such as "high-tech," emerging industries, inner city firms, minority firms, high wage jobs. These efforts are ultimately paid for in part by "disfavored" industries that are taxed at normal rates, which depresses their employment and revenues, and often generates a net tax and job loss for the region.[13]

Beyond mere generalities, or clearly fraudulent programs such as worker's compensation, fashioning the details of regulatory and business climate improvements is extremely difficult. Together with the persistence of redistribution politics and the effects of external regulatory mandates, this helps contribute to the absence of major regulatory improvements in the County.

C. Isolated Economic Policy Measures.

Survey and interview responses consistently showed a large schism between pro-development public policies in the County–defense conversion, employment and training support, trade stimulus measures, manufacturing and technology assistance, capital support efforts, and enterprise zones incentives, for example–and what firms actually report they need to survive in the global economy.

Public efforts, such as university training, R&D, funding, and the like, were consistently at the very bottom of respondent rankings about key funding, creative, and business resources in the region (see Section II, Part 2, above). Much-publicized state and federal initiatives, particularly those focused on defense conversion, were viewed with considerable skepticism. And even efforts that came closer to the needs of regional firms, such as business loans, were either seen as too bureaucratic and restrictive, or most firms were simply unaware that such assistance existed.

The principal reason why existing support policies, and hundreds of millions of dollars of public funds, correlate so poorly with private sector development is that most public initiatives are conceived, funded, and administered with only minimal input from the business constituencies they are supposed to serve. This problem has grown over time, as County and City departments lost intimate knowledge about, and the ability to easily interact with, the diverse industries in their jurisdictions. Instead of flexible and responsive programs, most efforts are designed by state, local and federal bureaucrats speaking largely to each other, and implement strategies invented by politicians with, at best, imperfect market information.

---

[13]For comprehensive reviews of how discriminatory tax incentives are usually ineffective, see "States, Localities Overspending on Costly Incentives for Development, Report Warns," BNA Daily Tax Report, July 21, 1994. See also Corporation for Enterprise Development, "Are Cities and States Selling Themselves Short?" 1994.

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Economic development measures conceived and implemented in this fashion are almost certain to fail. If the companies themselves in most industries are increasingly unable to define their core markets, job requirements, and technologies, then policy makers that are much more isolated from day to day economic realities will have even less ability to determine what measures will stimulate job and business growth. And, in the likely event that their initiatives fail, the private sector will have less confidence in dealing with the government, further increasing the gap between actual market needs and public policy.

This does not mean that public policy has no role to play in economic development for the County, but rather that such efforts must be far more integrated with the real needs and concerns of the firms they are intended to benefit. The County's business climate is unlikely to improve unless the region's firms are able to (1) clearly articulate what they need, and (2) see that state, local and federal development measures eventually reflect their requirements. To achieve such results, economic policy must be continuously responsive to the broadest range of regional industries (see Section V, below).

Examples of the kinds of support proposals that could be discussed if government and industry interacted more effectively include the following (based on interview and survey results):

- *Biomedical "campus" development*. The biomedical industry is increasingly attracted to clean, campus-like business developments with close access to major universities or research hospitals. Los Angeles almost totally lacks such facilities, a big reason why many firms are thinking about, or are, relocating to Irvine or San Diego.

- *Larger space for growing mechanical engineering firms*. Many mechanical engineering firms are moving out of the urban center because they cannot find large, reasonably priced facilities with parking, especially south of Interstate 10. A clear redevelopment priority would be creating such space to sustain or generate new jobs in one of the most neglected areas of the City.

- *21st Century entertainment facilities*. The talk of many production firms is the need for modern, flexible space to accommodate burgeoning film, commercial and television business, and also to move into new fields like retail or multimedia. While there are several proposals, including at least one west side studio plan, and initial discussion of an east side facility, there are no responsive authorities to encourage such efforts and bring them to fruition.

- *Trade issues*. Many firms reported that they wanted assistance with international trade, both to help open markets, and to find support for attending trade show and similar market activities.

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REGIONAL COMPREHENSIVE PLAN

SOUTH BAY SUBREGION

ECONOMIC AND DEMOGRAPHIC TRENDS

Prepared By:

Stanley R. Hoffman Associates, Inc.
11661 San Vicente Boulevard, Suite 505
Los Angeles, California 90049

September 1, 1993

High Land Costs and Lack of Available Land

Issue

The relatively high cost of land and lack of available large parcels have preempted potential companies from coming into the South Bay subregion.

Discussion

While development opportunities still exist in the South Bay subregion, relative to other subregions and peripheral areas in Southern California, there is a relative lack of vacant and available industrial land. Significant attention has been given to redevelopment, recycling, and reusing older facilities and parcels which have the opportunity to transition to higher valued uses.

Strengths

- The South Bay can compete for business retention and expansion because of unique locational advantages and amenities.

- The South Bay could benefit from major investments in infrastructure, land resources and increased financial resources to support new industrial growth.

Weaknesses

- Many parts of the South Bay area will have difficulty under the status quo in competing with new industrial and R&D development in outlying areas where sizable parcels of land are available and the land prices are generally lower.

- Infrastructure and public services in outlying areas are also generally perceived to be newer and better.

- Potential environmental concerns, such as hazardous onsite materials, will make it difficult for some parcel assembly.

Implications

- Investment in public infrastructure should be targeted into the highest priority areas.

- Development processing needs to be streamlined to expedite development approvals.

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- Declining public revenues, particularly for sales and property taxes, will make it increasingly difficult to maintain a high level of public services.

Implications

- The South Bay Cities need to identify and implement the highest priority public service needs.
- Improved accessibility, particularly public transit, is also a key priority for the South Bay subregion.
- Improved financing capability and stability amount local jurisdictions to maintain a high level of public service delivery.

Maximizing New Technology Development

Issue

The national trends are changing to accommodate new technologies. To what extent can the South Bay subregion accommodate these new emerging technologies and what is the best approach?

Discussion

Many of the older areas of the region, such as the South Bay, are finding it increasingly difficult to compete with newer industrial construction in outlying areas, where sizable vacant parcels are located, land prices are generally lower and infrastructure availability and public services are perceived to be better. While a number of the South Bay cities are able to compete effectively because of unique locational and amenity advantages, in general, many of the cities could benefit substantially from major investments in infrastructure, land resources, and increased financial resources. Also, the South Bay could well benefit from increased opportunities in new technology related to fields such as environmental control and management, telecommunications, alternative fuels, intelligent highway and vehicle systems, and electric cars. The South Bay should continue to position itself to take advantage of these opportunities.

Strengths

- The South Bay subregion has the high technology and aerospace industries and labor force that can take advantage of the new, emerging technologies.
- The subregion has strong locational advantages, and a high quality of life.

Weaknesses

emerging industries, such as alternative fuels, electric vehicles, telecommunications, and intelligent highway systems.

5. MAXIMIZING INDUSTRIAL DEVELOPMENT

Issue

In the South Bay, the economy has been particularly hard hit due to the national downturn in aerospace and defense, as well as the impact of the local economy. In many older parts of the region, the patterns and succession of land uses have left a fragmented development pattern. While some issues related to limited vacant land opportunities compete with outlying parts of the region with relatively large tracts of vacant land, others relate to a decreasing rate of manufacturing growth, particularly in the high technology sectors. How can the South Bay Cities compete successfully for new industrial development?

Discussion

Many of the older areas of the region, such as the South Bay, are finding it increasingly difficult to compete with new, industrial construction in outlying areas, where sizable vacant parcels are located, land prices are generally lower and infrastructure availability and public services are perceived to be better. While a number of the South Bay cities are able to compete effectively because of unique land and financial advantages, in general, many of the cities could benefit substantially from major investments in infrastructure, land resources, and increased financial resources. Also, the South Bay could well benefit from increased opportunities in new technology related to such fields as environmental control and management, telecommunications, alternative fuels, high intelligence systems, and electric cars. The South Bay should position itself to take advantage of the opportunities.

Policy Options

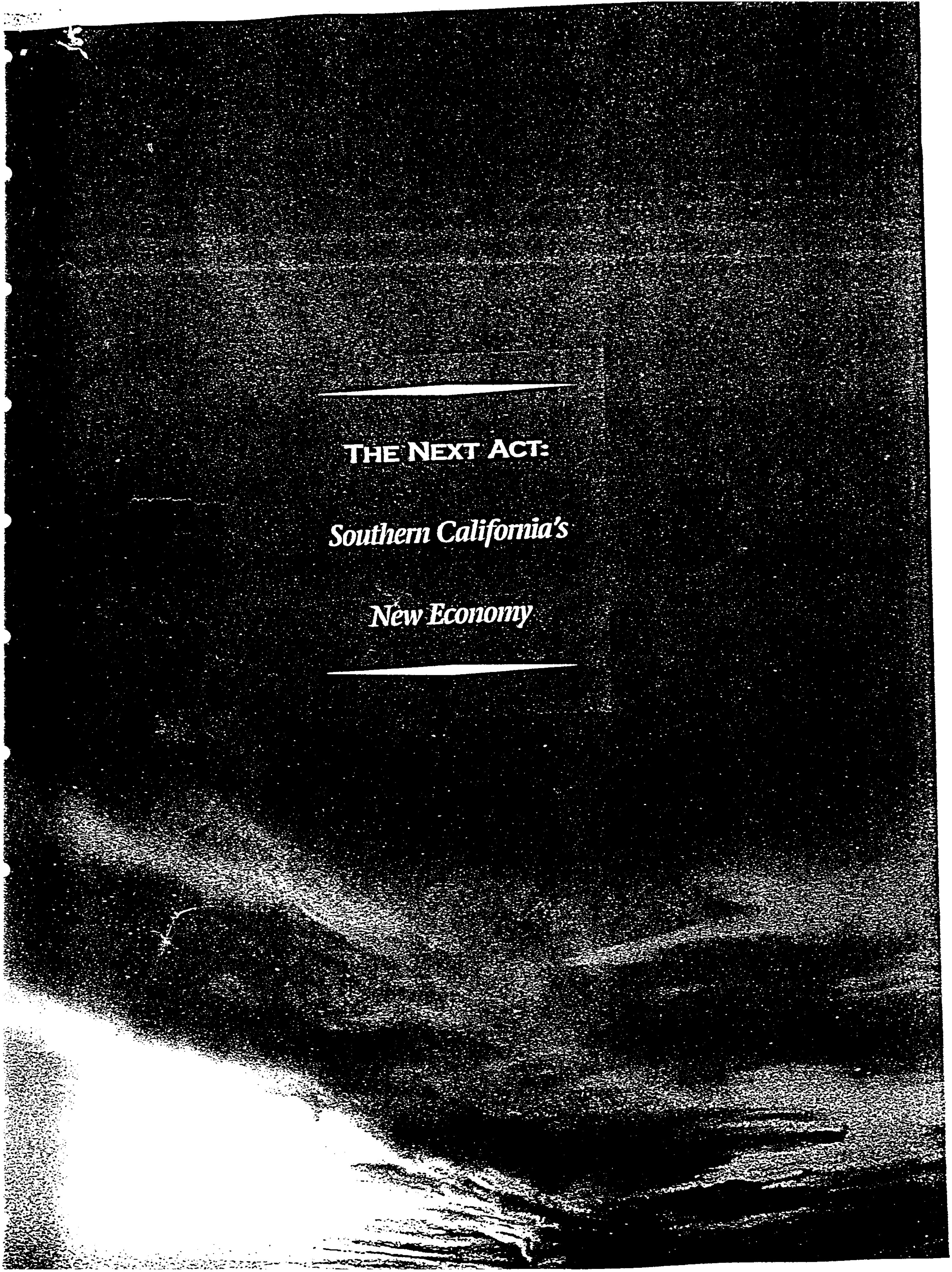
1. Wait for the Regional Economic Council to establish priorities and strategies

2. Begin now to cooperatively identify development opportunities and seek new industries in the most likely industry groups, particularly high technology

3. Develop new land assembly and processing procedures to expedite development so business can act quickly to capitalize on opportunities in the South Bay Cities area

4. Move to get major infrastructure investments in the subregion that can have broad economic effects and that can also enhance the subregion's economic competitiveness

5. Develop a joint marketing strategy with emphasis of the strengths of the subregion and its amenities



The Next Act:

Southern California's New Economy

BOE-C6-0092795

"The Next Act:
Southern California's New Economy"

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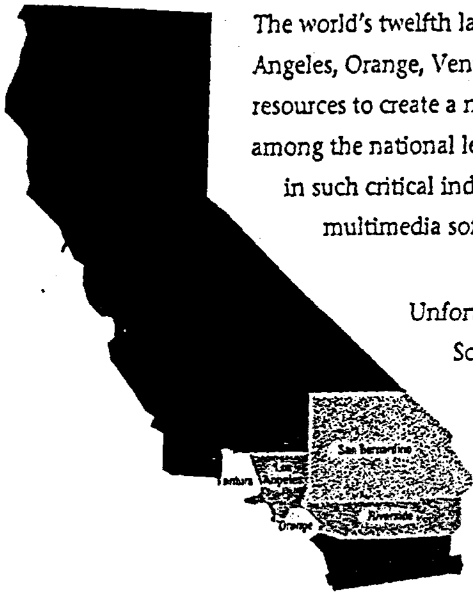
THE NEXT ACT...SOUTHERN CALIFORNIA'S NEW ECONOMY

The early 1990s have been an era of rapid, even extreme, change in Southern California. Pummeled by fires, devastating earthquakes, a riot in its urban core and massive downsizing in the defense industry, the region is now regaining its economic vitality. The evidence: the creation of new jobs, resurgent small business loan demand, and growing home and retail sales.[1]

Painful though the early 1990s have been, wrenching changes are not new for Southern California. From the days of its Spanish pioneer settlement to eras dominated by mining, agriculture, oil, entertainment and defense, Southern Californians have continually re-invented both themselves and their region. In each case the transformation depended on marshaling the creativity, the entrepreneurial spirit and the diverse human assets of the region.

As in the past, economic and social change will not be painless. Some industries will lose their relative importance, while others will assume a more central role. In the end, the region's economic, social and cultural composition will be transformed in new and quite often radical ways.



The world's twelfth largest economy, this region — comprised of the five counties of Los Angeles, Orange, Ventura, San Bernardino and Riverside.[2] — possesses within itself the resources to create a new, successful economic act. Even today Southern California remains among the national leaders in the number of companies, revenues and employees it sustains in such critical industries from entertainment and tourism to environmental engineering, multimedia software, energy, biomedicine and design.

Unfortunately, the fundamental strength and remarkable diversity of the Southern California economy is little understood or appreciated, either within or outside the region. Yet it is only when the public and key civic players begin to comprehend the region's remarkable economic and cultural diversity that Southern California can fully recover from the recent doldrums and build toward a new period of prosperity.

The following is an examination of the historical record of the regional economy and its record of recovery from previous downturns. This report will examine the role of demographics and cultural diversity in the region's economic evolution over the past two decades. Finally, we trace the emergence in the 1990s of a new kind of economy dependent on creative skills and global ties — the economy that composes Southern California's "Next Act."

[1] Sources: UCLA Forecast, September 1994, Dunn and Bradstreet, Center for the Continuing Study of the California Economy, Manpower, Inc, Survey of May 31, 1994, Arthur Andersen Small Business Survey

[2] SCAG, "Draft Regional Plan," December 1993, p. 2-1, (The SCAG region also consists of Imperial County for which many statistics were not available)

DEFENSE BUSTS AND NEW ECONOMIC BOOMS: A HISTORICAL PERSPECTIVE

Unlike other regions, such as the Northeast, which also suffered severely from the recent recession, Southern California's severe 1990s' downturn reflected, more than anything else, a painful aftershock in response to massive cuts in the defense budget. In most studies defense, space and commercial aerospace count for at least fifty percent or more of all job losses in the region.[3]

These cuts, as well as the effects of a national and global recession, also eroded confidence in the construction industry, leading to sharp cutbacks which caused another thirty percent of the regions' job losses.[4] Defense and construction cutbacks, not a broad-based economic collapse, accounted this for eighty percent of all job losses in the 1990s recession.

This recessionary pattern has not been uncommon in Southern California's history, where dramatic government-related industrial retrenchment presaged major past regional downturns. In each case, these cutbacks produced high unemployment and widespread pessimism about the region's long-term prospects. Yet over time, dynamic forces in the private economy eventually sparked a new and expanded prosperity.

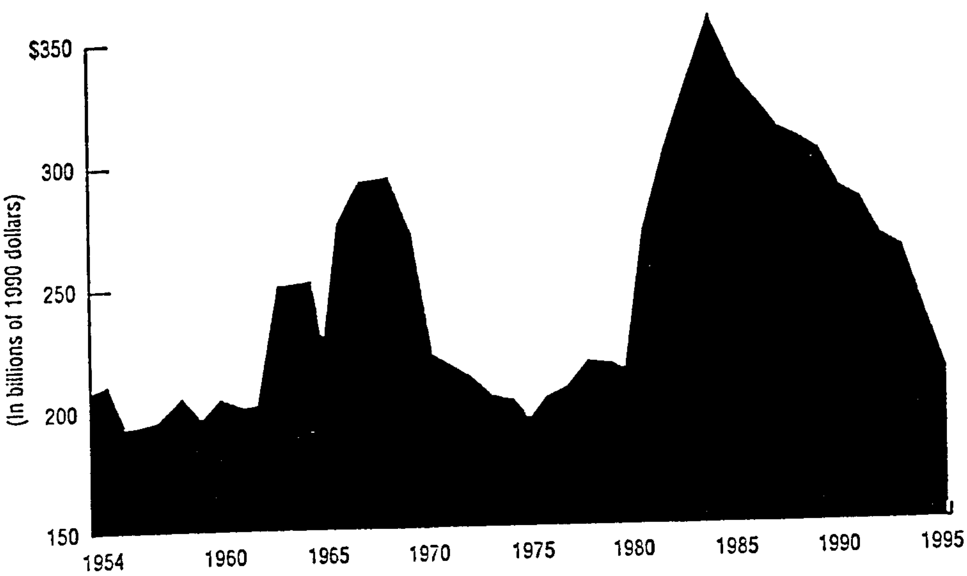
Two periods in particular stand out in this regard: the end of World War II and the denouement of the Vietnam war era. After World War II, the dismantling of defense industries dramatically increased the region's unemployment rate and led to a steep drop in both inward migration and percapita income.[5]

Many, then as now, predicted an industrial apocalypse in the region. "Peace," Los Angeles Mayor Fletcher Bowron warned darkly in 1946, "threatens industrial dislocation in this area which might throw thousands out of work....The good Lord did not intend for this to be an industrial city."[6]

But by 1952, personal income had finally recovered to its 1945 levels.[7] Based largely on the private redeployment of the physical, technical and human assets of the wartime defense industry, the region began its unprecedented rise through the 1950s as the national center for high technology and commercial aerospace industries. By 1960, it had become one of the fastest growing industrial regions in the world.[8]

BOOM AND BUST IN DEFENSE SPENDING

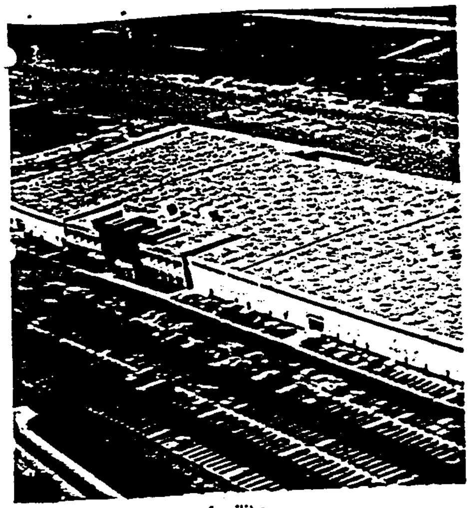
CHART 1



Boom and Bust in Defense Spending

Source: Shrinking Fast and Smart in the Defense Industry, *Harvard Business Review*, Nov. - Dec. 1992, p.77

[3] Brian Cromwell, "California Recession and Recovery," *Federal Reserve Board Weekly Letter*, no.94-17, April 29, 1994
[4] David Friedman, "The New Economy Project," Los Angeles, 1994, section one
[5] "The Sixty Mile Circle: The Economy of Greater Los Angeles," Security Pacific Bank, February, 1984, pp.2-3
[6] John Weaver, *El Pueblo Grande*, The Ward Ritchie Press, Los Angeles, 1973, pp.43-46
[7] "Sixty Mile Circle," *op.cit.*, p.3
[8] Joel Kotkin and Paul Grabowicz, *California, Inc.*, Rawson Wade Publishers, New York, 1982, pp.37-41



Robinson Helicopter facility

"We have weather that is unmatched anywhere in the country, for flying, for testing, for development, for building large buildings that don't require lots of heat in the winter, or cooling in the summer," says Robinson helicopters founder Frank Robinson. "...you're going to see smaller, much more aggressive companies gradually growing up in this area because it's a good area."

Similarly, with the winding down of the war in Southeast Asia in the late 1960s and early 1970s, Southern California experienced a dramatic loss of over 120,000 defense related jobs. Based on population and employment of the times, the post — Vietnam job losses exceeded in per capita terms those experienced over the past four years.[9] During the entire period from 1967 to nearly the end of the 1970s unemployment soared well above the national average[10] — at times exceeding the norm by as much as 50%.[11]

Regional levels of inmigration and population growth dropped to the lowest point since well before the depressionof the 1930s.[12]

These adverse changes, however, concealed fundamental strengths in other parts of the economy. By the late 1970s and early 1980s, the real economy was generating one of the most remarkable periods of regional economic growth in American history. As the defense share of the regional economy fell, so did unemployment[13] as the economy recovered.[14] Statewide employment levels from 1974 to 1979 grew by over twenty percent, four to five times more than most Northeastern states and twice as fast as its leading technological rival, Massachusetts.[15] This era saw the creation of a host of new companies, such as AST Research and Robinson Helicopters, which later became world-wide leaders in their fields.

By the 1980s prominent new sectors emerged as standouts in Southern California's new economy: textiles, telecommunications, computers, international trade and environmental services. Such growth also led to one of the most dramatic in-migrations in recent American history. The rise of these industries and the influx of new people also sired whole new industrial regions in Orange County, the west San Fernando Valley, and the Inland Empire, as well as Northern California's Silicon Valley.

Joyce Freedman

MODACAM

As in the 1970s' recession, the current aerospace defense downturn has also provided access to enormous human resources. Modacam, a fast-growing design company was founded in 1988 by garment district veteran Joyce Freedman with a boost from technology designed by Mauricio Vecchione, a former NASA computer expert.

Today the company develops tools that are used not only by furniture and apparel designers, but for point of sale systems at department stores and other retail outlets both around the country and in thirty foreign countries. It employs over twenty-five highly skilled programmers and designers in its West Los Angeles Offices.

"The whole arena of multimedia and the television industry and the whole arena of interactive services — all those things are converging to create a virtual world for people to shop in and design," Vecchione explains.

[9] Jim Peltz, "Down but not out", *Los Angeles Times*, September 26, 1993, p.1, d4; SCAG, *op.cit.*, p.2-10-11
[10] United California Bank, "Forecast 1981," September 1980; Dennis Macheski, "Implications of Recent Econonic and Demographic Trends for the Los Angeles Office Market," December 2, 1992
[11] California Employment Development Department, Los Angeles County Annual Planning Report, 1993
[12] "The Sixty Mile Circle," *op.cit.*, p.2
[13] SCAG report, *op.cit.*, pp.2-11
[14] Joel Kotkin and Paul Grabowicz, *California, Inc.*, RawsonAssociates: New York, 1982, pp.16-22
[15] California Economic Development Department, "Job Growth in California, 1979"

Consolidated Metropolitan Statistical Area (CMSA)
1990 U.S. Census Bureau

(Designated areas for regional comparisons)

1. New York - Northeastern New Jersey - Long Island (CMSA)
(11 counties in New York, 12 counties in New Jersey and all or parts of counties in Connecticut)
Population: 17,953,372

2. Southern California Region - Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties
Population: 15,218,089

3. Chicago - Gary - Lake County (CMSA)
(8 counties in Illinois, 2 counties in Indiana and 1 in Wisconsin)
Population: 8,065,633

4. San Francisco - Oakland - San Jose (CMSA)
(10 counties in California)
Population: 6,253,311

5. Philadelphia - Wilmington - Trenton (CMSA)
(5 counties in Pennsylvania, 6 in New Jersey, 1 in Delaware and 1 in Maryland)
Population: 5,899,345

6. Detroit - Ann Arbor (CMSA)
(8 counties in Michigan)
Population: 4,665,235

7. Washington D.C. Metropolitan Statistical Area (Washington D.C., 5 counties in Maryland, 5 counties in Virginia and 5 cities in Virginia)
Population: 3,923,574

8. Dallas - Fort Worth (CMSA)
(9 counties in Texas)
Population: 3,885,415

9. Boston - Lawrence - Salem (CMSA)
(All or parts of 7 counties of Massachusetts and parts of two counties in New Hampshire)
Population: 3,783,817

10. Houston - Galveston - Brazoria (CMSA)
(7 counties in Texas)
Population: 3,711,043

11. Miami - Fort Lauderdale (CMSA)
(2 counties in Florida)
Population: 3,192,582

12. Atlanta (CMSA)
(20 counties in Georgia)
Population: 2,959,990

13. Seattle - Bellevue - Everett (CMSA)
(4 counties in Washington)
Population: 2,033,156

14. Denver - Boulder - Greeley (CMSA)
(6 counties in Colorado)
Population: 1,848,319

15. Raleigh - Durham (CMSA)
(7 counties in North Carolina)
Population: 855,545

Today Southern California is undergoing a similar transition. The proportion of jobs and overall production now tied to defense-related industries, which in the past fifteen years has accounted for no more than five percent of the total job base,[16] has dropped precipitously to less than half its share fifteen years ago.[17] Sectors such as entertainment, textiles, business services, international trade, environmental engineering, all of which grew markedly during the same period are rapidly supplanting defense job losses.[18]

Indeed, entertainment and tourism now surpass defense and aerospace in regional employment (chart 2).[19] Similarly medical instrument employment — which has enjoyed nearly threefold growth over the past twenty years — now has overtaken missiles and space (chart 3).[20]

Equally important, the Los Angeles area over the past decade has experienced a dramatic growth in business services, consistently among the fastest growing parts of the economy and the largest single source of high-paying jobs in California. In little more than fifteen years, for example, professional service jobs in Southern California have grown by more than 300,000 jobs or over sixty percent. By the year 2005, they are expected to grow again by another 300,000 more (chart 5).[21]

These trends bode well for high-quality, high-wage employment in the region. In Southern California, by a four to one margin, the service jobs created in the 1988-1990 period were in higher-paying professions such as computer service professionals and health care

THE SHAPE OF THINGS TO COME

CHART 2

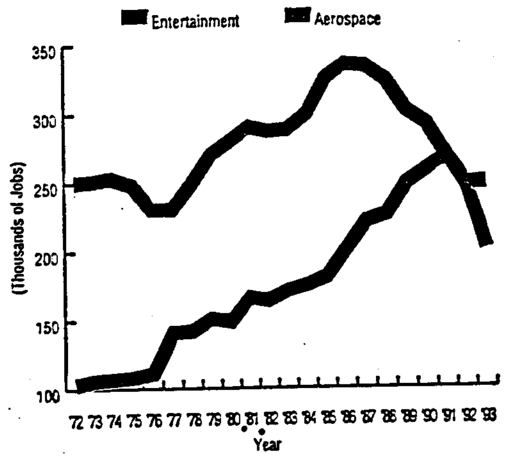


CHART 3

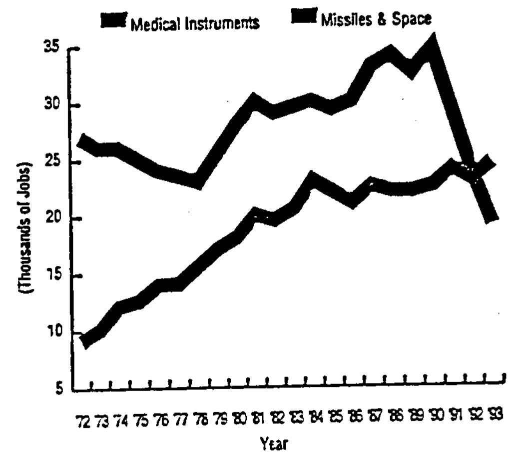
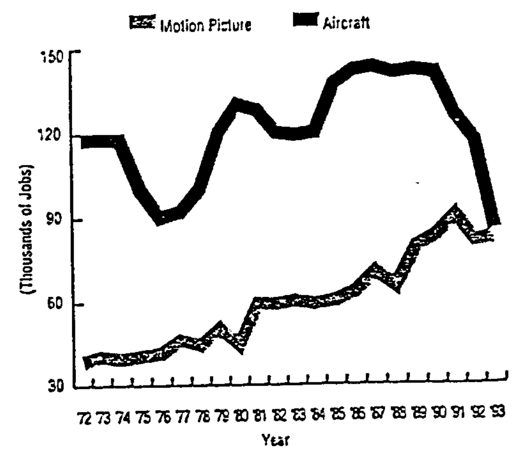


CHART 4



Source: California Economic Growth, Center for Continuing Study of the California Economy, 1994, p.10-8

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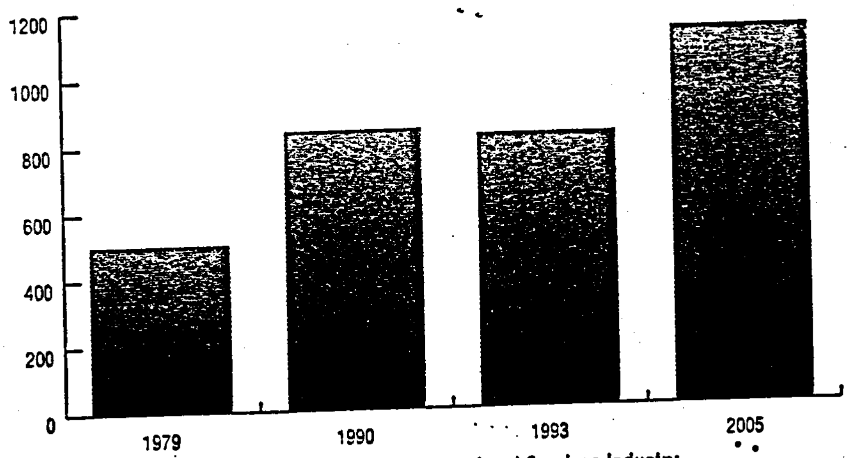
administrators than at lower skilled "general" service jobs such as car wash operators and "hamburger flippers."[22] Southern California leads the nation in the more specialized areas of environmental consulting,[23] and entertainment — sectors which pay average wages 50 to 80% higher than the statewide mean.[24]

Another source of resurgent growth is travel and tourism. Los Angeles is already the largest tourist destination in California, the leading state for tourism — now the world's largest and fastest growing industry.[25] It also employs more people in the amusement and recreation field than any other metropolitan area (chart 6).[26] Altogether, over 200,000 people in Los Angeles County alone make their living directly connected to annual visitor spending in excess of $4 billion annually.[27]

Greater L.A.'s prominence as a premier tourism destination stems in large part from its array of attractions, including four of the nation's ten largest concentrations of amusement and recreation facilities. No other region, including Greater New York, possesses more than one.[28] And in the first half of 1994 — even after the riots, devastating earthquakes, chronically bad publicity and a global recession took their toll — the tourism industry began to grow again, with visitor trade up 4.4% in the first half of the year.[29]

SERVICE ECONOMY GROWTH

CHART 5



Los Angeles Basin Professional Services Industry

Source: California Economic Growth, Center for Continuing Study of the California Economy, 1994, p.10-13

AMUSEMENT LEADER

CHART 6

Amusement & Recreation Services

Rank	Region/State	# of Employees (Mid-March)	Payroll Annual ($1,000)	Total # of Ests
1	Los Angeles, California	86,768	2,434,148	5,170
2	New York, New York	66,099	1,838,786	5,736
3	Chicago, Illinois	29,560	571,117	1,601
4	San Francisco/San Jose/Oakland	27,642	571,700	1,969
5	Houston, Texas	18,110	263,840	797
6	Philadelphia, Pennsylvania	17,954	353,817	1,334
7	Washington, D.C.	17,460	317,405	1,099
8	Detroit, Michigan	14,987	307,174	1,022
9	Atlanta, Georgia	13,815	230,726	846

Source: CBP 1991 Prepared By: Diversified Data Services, Inc.

[16] SCAG, *op.cit.*, pp.2-11
[17] Steve Levy, "Defense Cut Put Money Elsewhere," *Los Angeles Times*, January 31, 1992, p.B7: estimates by Dennis Macheski, Price Waterhouse
[18] Friedman, "New Economy Project, *op.cit.*, p.II-5 and California Economic Growth," Center for the Continuing Study of the California Economy, Palo Alto, 1994, pp.10-7-20
[19] "California Economic Growth", p.10-8
[20] *Ibid.*, pp.10-8
[21] *Ibid.*, pp.10-13
[22] Burgess, *op.cit.*, p.8
[23] Chart based on County Business Patterns in 1991 prepared by Diversified Data Services; environmental numbers courtesy of *Environmental Business Journal*, 1994
[24] Friedman, "New Economy Project," *op.cit.*, pp.II -23
[25] Source: World Travel Organization, Madrid, 1993
[26] Based on County Business Patterns in 1991, prepared by Diversified Data Services
[27] "The Economic and Employment Impacts of Tourism on Los Angeles," LA County and Visitors Bureau, 1994, pp.1-2
[28] *Edge City News*, "Where the Fun Is," July-August 1994, p.2
[29] Nancy Rivera Brooks, "Surprising Season," September 7, 1994, pp.D1, D13

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As in the past, Southern California continues to reinvent its economy, building the basis for future prosperity even as it endures the pain of continuing defense cutbacks. But the real keys to this recovery, as in all the others, lies in tapping the region's entrepreneurial spirit, technical prowess and the work ethic of its people.

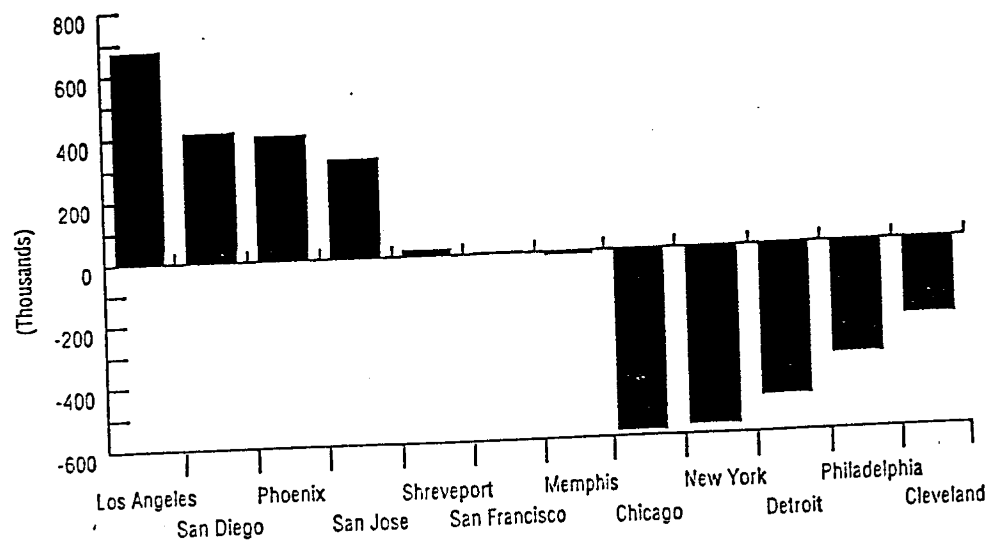
Despite its recent problems, Southern California continues to demonstrate an appeal, particularly to the young and ambitious, seen in a few large urban areas. During the past twenty years, the Southern California five county region added 4.5 million people, roughly the equivalent of the population of Minnesota and grew at a rate more than twice the national average. In the same period, it created nearly 2.88 million new jobs.

Remarkably, this growth took place even in older, settled Los Angeles County, which gained over 1.4 million people and 1.8 million jobs during this same period. In contrast, cities such as Chicago, New York, Detroit, Philadelphia and Cleveland failed to create any net new jobs over the past two decades while *losing* large numbers to out-migration (chart 7).[30] Even the much maligned city of Los Angeles gained 670,000 people, by far the largest total increase of any major city in the United States.[31]

Over the balance of the decade, the region's population is estimated to grow by another two million[32] Although slowed by recession and adverse perceptions of the region, the fundamental replenishment of Southern California's talent and skills through migration continues to this day. A University of Michigan study found that migrants from the rest of the country *into* California throughout the 1980s were better educated and more affluent than those moving out.[33] Since 1970 the Los Angeles basin's median household income grew from only one percent above the national average to a full sixteen percent higher by 1991.[34]

DYNAMIC METRO GROWTH

CHART 7



Net Change in Top 73 Urban Areas' Population, 1970-90, by Group

Source: The New Los Angeles Economy, David Friedman, June 16, 1994

[30] Derived from *Statistical Abstracts of the United States*, 1993
[31] *Ibid.*
[32] Cited in Dennis Macheski, "Implications of Recent Economic and Demographic Trends for the LA Office Market," Price Waterhouse, December 2, 1994, California State Department of Finance
[33] University of Michigan, Migration Study, 1994
[34] Dennis Macheski, "Implications for Real Estate," *op.cit.*, p.4, other calculations by Macheski based on US Census and Donnelly Demographics

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Even in 1993, a particularly poor year for Southern California, more people under the age of 30 migrated into Los Angeles County from the rest of the country than moved out. As was the case statewide, the largest net sending states were those in New England and the Greater New York region.[35] Even now, for every ten people leaving California over the age of 30, according to a RAND analysis, eight under the age of thirty were moving in.[36] Younger people are a great asset: they are more active in the workplace, able to work longer hours and often have skills, such as in computers and design that are critical to the emerging economy.

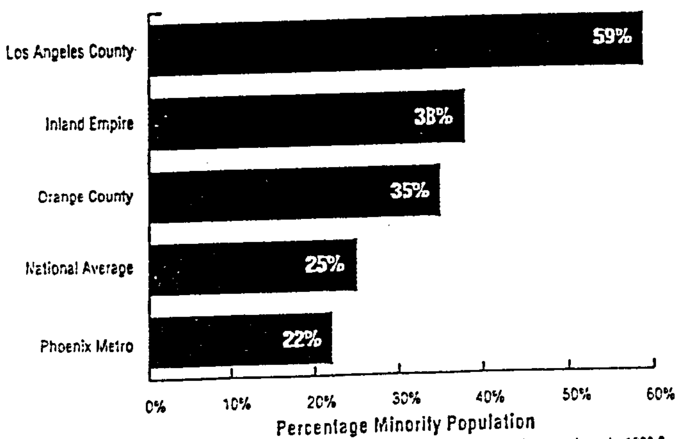
"The French it's said make the world's best perfumes and the Swiss the finest watches," noted RAND demographer Peter Morrison. "California, it seems, makes the biggest dreams." [37]

A substantial majoity of the region's total population increase came from Latinos and Asians, the two largest immigrant groups.[38] During the 1980s, the greater Los Angeles area received roughly two million immigrants, 500,000 more than second-place New York.[39] Not surprisingly, then, Southern California increasingly looks different from the rest of the country, with far larger foreign-born populations and minority populations than the national norm (charts 8 and 9).[40]

Minorities, and particularly immigrants, are making steady contributions to the state's economy. They are entering the middle class at a rapid rate. Latinos, for example, in Los Angeles boast more stable family environments, higher rates of male labor participation and lower AFDC dependence than any major racial group.[41] And during the decade of the 1980s, income growth among African-Americans, Asians and Latinos rose at a considerably higher rate than those of Anglos (chart 10).[42] These groups have also showed the fastest growth in college matriculation, with Asians in particular now outstripping all other ethnic groups.[43]

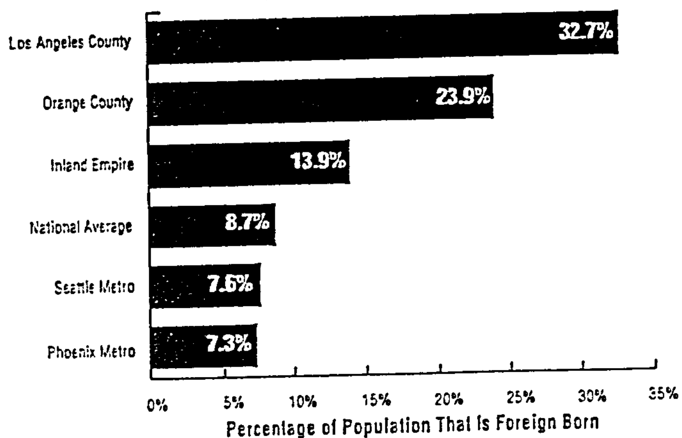
A LEADER IN DIVERSITY

CHART 8



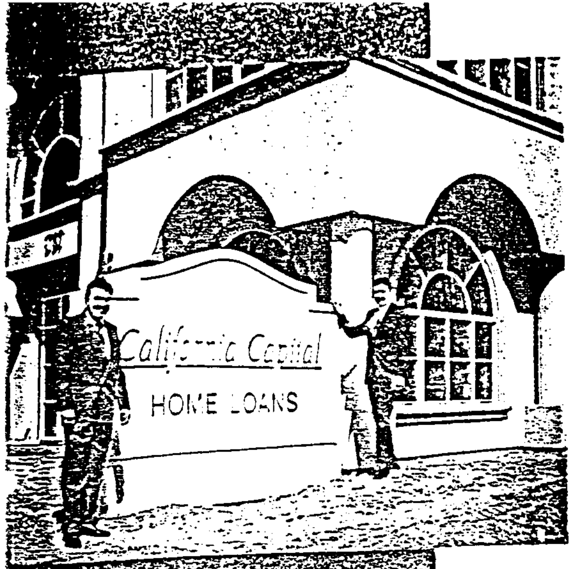
Minority Population is defined as Black, Hispanic and Asian/Other. Based on data from the 1990 Census
Source: Demographic and Economic Trends: Pacific West Overview, Price Waterhouse, March 1994, p.27

CHART 9



Calculated by Price Waterhouse based on data from the 1990 Census
Source: Demographic and Economic Trends: Pacific West Overview, Price Waterhouse, March 1994, p.24

[35] Department of Finance, Sacramento, "Notes on Drivers License Address Change Report, Fiscal Year 1993," October 31, 1993
[36] Peter Morrison, "A California That Can Work: People, Productivity, and Energy," RAND paper P-7828, June 1993, p.3
[37] *Ibid.*, p.6
[38] From Census data reported in the Statistical Abstract of the United States, 1991, 1993
[39] "The Immigrants: How They're Helping to Revitalize the US Economy," *Business Week*, July 13, 1992, pp.116-117. Chart based on data from Urban Institute and Census Bureau
[40] Dennis Macheski, "Demographic and Economic Trends: Pacific West Overview," Price Waterhouse, March 1994, p.24, p.27
[41] Compiled by the Hispanic Resources, *Hispanics in Los Angeles*, pages 63-64; The Latino Coalition for a New Los Angeles, *Latinos and the Future of Los Angeles*, Los Angeles, 1993, p.16
[42] Friedman, *op.cit.*, pp. 1-13
[43] New Economy Project data prepared by Diversified Data



Alex Espinoza (at right)

CALIFORNIA CAPITAL

Since 1989, the Espinoza family has capitalized on the new immigrant housing demand to rise from a small family owned company to a major presence in the Inland Empire home real estate finance market. Through the early 1990s, California Capital's sales skyrocketed, with the value of loans funded rising from $12.3 million in 1990 to $51.7 million in 1993.

"We have found a great market in the Hispanic family buyer," asserts company co-founder Alex Espinoza. "These people are very work oriented and determined to get their piece of the American dream."

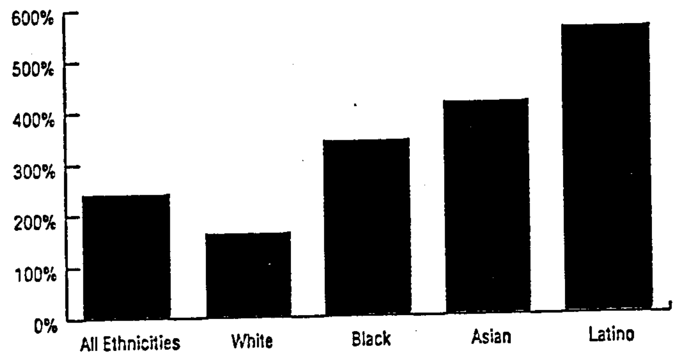
These demographic changes have profound economic consequences for the future Southern California economy. In the past few years Latinos and Asians have accounted for an increasing share of the region's homebuyers. The ten most common names for recent home buyers in California include Lee, Martinez, Rodriguez, Garcia, Nguyen and Wong; in Orange County, the Nguyens outnumber the Smiths by two to one among the ranks of new homebuyers.[44] In Los Angeles County alone Chinese-surnamed individuals, less than three percent of the population, now account for nearly one in five home-buyers[45]

Southern California's growing economic diversity can perhaps be seen by the rapid growth of minority owned businesses. According to the last economic census, Southern California leads the nation in Latino, Asian and African-American owned enterprises.[46]

In recent years, the growth of these minority businesses, particularly Asian and Latino, has been spectacular. Over the past decade in Los Angeles alone the number of Latino- and Asian-owned businesses has more than tripled. Over the past two decades Latino-owned firms have enjoyed a 700 percent increase, three times the overall Latino population growth rate[47] (chart 11).[48]

RISING MINORITY INCOMES

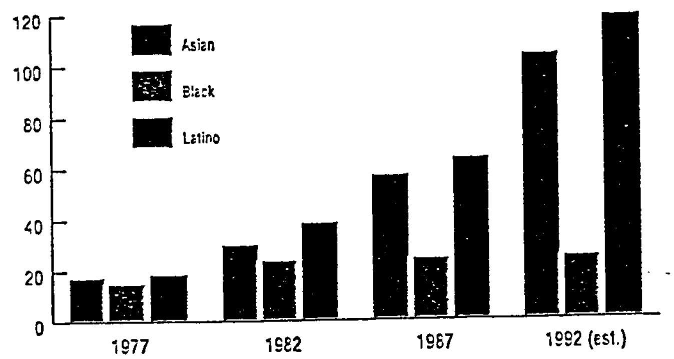
CHART 10



Percent Change in Income 1980-1990
Los Angeles County

Source: The New Economy Project, David Friedman, August 5, 1994, p.1-13

CHART 11



Growth of Emergent Majority Owned Firms,
Los Angeles County 1977-1992

Source: Latinos and the Future of Los Angeles, 1993, p.18

[44] Based on TRW printout obtained from *Los Angeles Times*
[45] Ruben G. Rumbaut, "Origins and Destinies: Immigration to the United States Since World War Two," draft paper, p.2 to be published in *Sociological Forum*, Volume 9, Number 4, December 1994
[46] Based on Economic Census, 1987, most recent numbers available
[47] *Latinos and the Future of Los Angeles: A Guide to the Twenty-first Century*, The Latino Coalition for a New Los Angeles, Latino Futures Group, Los Angeles, 1993, pp.16-18
[48] *Ibid.* figure 11, p. 17 and figure 13, p.20

Although many of these enterprises are small "mom and pop" operations, the cumulative effect of these ethnic enterprises is drastically reordering the region's economy. Networks of ethnic-owned businesses, largely Korean, Chinese and Middle Eastern, have sparked the rapid growth of new textile and garment firms in Los Angeles County. Ethnic Chinese and Vietnamese entrepreneurs have stimulated the development of "Toytown" wholesale district, which now does upwards of $1 billion in sales annually.

Increasingly, such diversity is becoming characteristic of sectors not traditionally dominated by immigrants. A recent survey by a University of Minnesota graduate student, for example, found over 1200 Chinese-owned computer firms in Southern California. Although most of these firms averaged barely ten employees each, in Los Angeles County alone these firms accounted for roughly 5000 jobs and about $3.1 billion in sales.[49] In Orange County, six of the top fifteen industrial companies were run by people born in another country, including the former Yugoslavia, Pakistan, Mexico and Taiwan.[50]

"Diversity isn't the thing that will kill us," observes Daniel Villanueva, Sr., President of Bastion Capital, the nation's first Latino venture capital firm. "It's the thing that will save us."

This same pattern of growing diversity also extends to women-owned businesses. Southern California's two largest economic regions — Los Angeles-Long Beach and Santa Ana-Anaheim — rank first and third nationally in the numbers of women-owned businesses.[51]

Besides offering their strong entrepreneurial tendencies, these newcomers provide Southern California one of the most unique mixes of skills and talents anywhere in the world. In Orange County, for example, one out of three engineers in 1994 was an immigrant.[52]

Although the early 1990s saw a significant outmigration of middleaged, middle class people, Southern California continues to have among the highest percentages of well-educated people in the United States partly due to in-migration of educated young people and well-educated immigrants. Even Los Angeles, with its large new immigrant community, ranks ahead of the national average and has the largest concentration of college graduates anywhere in the country.[53] In fact, since 1970 the county increased its number of college graduates from 500,000 to 1.2 million.[54]

Errol Smith

SMITH FRIDAY ENTERPRISES

Like many Southern Californians, Errol Smith migrated to Southern California, in his case from Harlem. In 1982, he co-founded Building Maintenance of America, a company that contracts out building maintenance services to some eighty separate cleaning firms to mostly smaller office, retail and industrial facilities across the Southland. Most of BMA's contractors are also newcomers — including from the Philippines, Korea, Mexico, El Salvador, Somalia and Nigeria.

"One thing I've learned in this business is that immigrants are a tremendous resource," says Smith, who also serves as Co-Chairman of the New Vision Business Council of Southern California. "I see the same work ethic in them that my parents brought with them from the Caribbean."

[49] Yu Zhou, "Flexible Production, Ethnic Networks and Territorial Agglomeration: Chinese Computer Firms in Los Angeles," Working Paper for the University of Minnesota, March 9, 1994, p.6, statistics are drawn from her studies.
[50] *Orange County Business Journal*, cited in James Doti, "Some Facts About Immigration," *Orange County Business Journal*, August 15, 1994, p.43
[51] Based on Economic Census, 1987
[52] Doti, *op.cit.*, p.43
[53] Cited in *The Economist*, "California Mark IV," June 4, 1994
[54] Dennis Macheski, "Implications for Real Estate,"*op.cit.*, p.4

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Brenda French (at right)

FRENCH RAGS

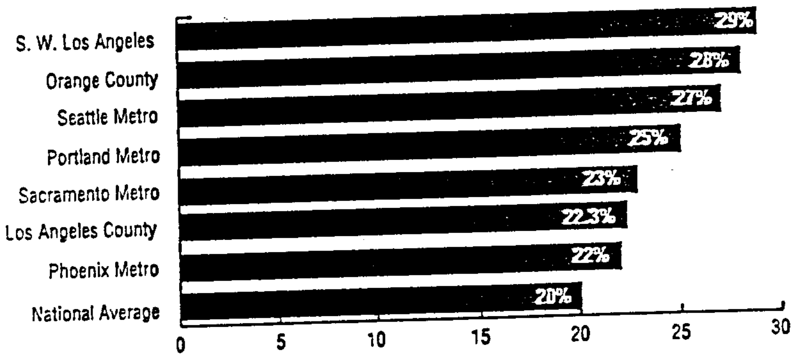
With its tradition of tolerance and fondness for design, observes Brenda French, President of French Rags, Southern California is an ideal locale for women-run businesses. With women becoming more important in both the workplace and as consumers, this may prove more and more important to the regional bottom line.

French, for example, has built her highly successful west LA knitwear firm by selling her garments directly to her customers around the country, including first lady Hillary Rodham Clinton, rather than through traditional retail outlets. "I think we've listened for years to women saying 'I hated shopping. How I hate stores,'" said French, an immigrant from Britain. "Well, I listened to that and I thought there was another way of doing that."

Some parts of the region — notably western parts of Los Angeles County and Orange County — have among the highest proportions of college-educated adults of any in the country, more than similarly sized regions such as Portland, Phoenix, Sacramento or Seattle[55] (chart 12).[56] These areas also contain twice the national average of households earning in excess of $75,000 annually.[57]

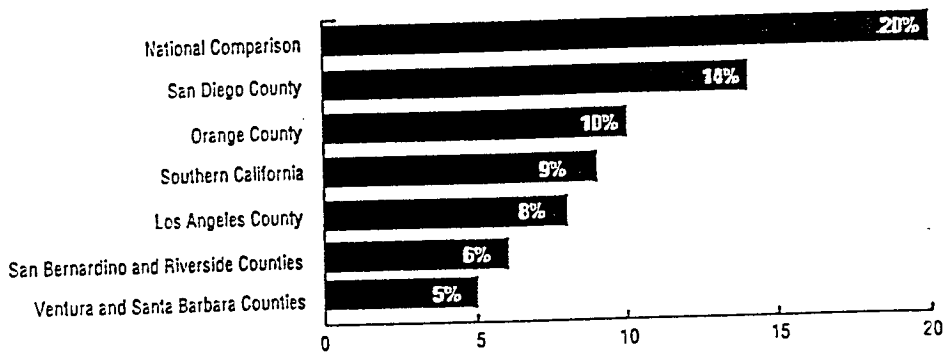
In addition to the pool of specialized workers, the demographic vitality of the region also offers employers a large work-oriented population that can also fill entry level production and service jobs. This remarkably diverse and flexible work-force, including both ambitious new arrivals and well-educated professionals, is particularly critical for emerging businesses. A 1994 Arthur Andersen survey showed that Southern California small- and mid-sized business owners were more than half as likely as their national counterparts to cite lack of "qualified workers" as a constraint on their businesses.[58] (chart 13)

CHART 12 A WELL EDUCATED WORK-FORCE



Percentage of Adults with a Bachelor's Degree
Calculated by Price Waterhouse based on data from the 1990 Census.
(Adult population is defined as those age 25 and over.)
Source: Demographic and Economic Trends: Pacific West Overview, Price Waterhouse, March 1994, p.24
89 to 91 employment data, EDD 3/92

CHART 13 THE WORKERS YOU NEED



Percentage of Lack of Qualified Workers
Source: Southern California Survey of Small and Mid-Sized Businesses, July 1994
Arthur Andersen Enterprise Group, p.3

[55] Dennis Macheski, "A Long Term View: Demographic and Economic Trends: Their Implications for Real Estate in the Pacific West," Price Waterhouse, March 1994, p.29
[56] *Ibid.*, p. 29
[57] *Ibid.*, p.32
[58] "1994 Southern California Survey of Small and Medium Sized Business," Arthur Andersen Enterprise Group, p.3 question 1

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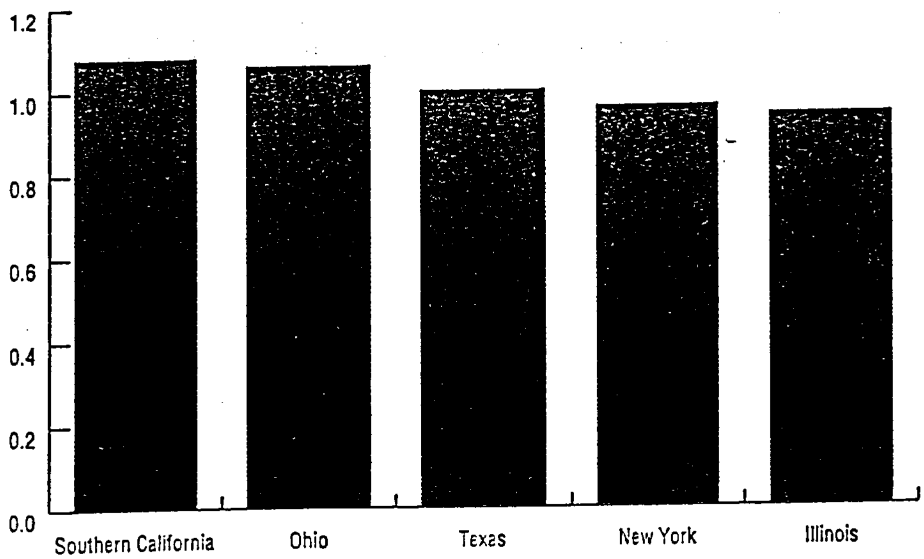
Just as in the past, demographics and new sectoral development are helping to redeploy the region's physical and human resources, further developing the post-Cold War economy of the 1990s. Even now the outlines of this economy are evident, even in the most blighted districts. A recent study of the "neglected regions" of Los Angeles County — those with 20 percent or higher poverty levels — showed a remarkable 15,327 companies employing 357,000 people and sales in excess of $54 billion. That's more than the entire manufacturing base of thirty states and six of the nation's largest metropolitan areas.[59]

The region's economic dynamism still depends largely on the health of its manufacturing industry. Although regional employment in defense and aerospace has dropped precipitously, Southern California today has more manufacturing employment than any region of the country, with more workers on the job than the entire states of Ohio, Texas, New York or Illinois (chart 14).[60]

The durability and diversity of industries in the Southland contrasts dramatically with the experience of other key urban regions, notably greater New York, which has lost roughly a half million manufacturing jobs since the early 1980s, with far less impact from defense cuts. The region's high technology industry extends deeply into such nondefense fields as computers, communications equipment and software.[61]

STILL THE INDUSTRIAL LEADER

CHART 14



April 1994 Manufacturing in Southern California
Source: *The New York Times*, July 3, 1994, 'The Faces of U.S. Manufacturing'

[59] Friedman, "New Economy," *op.cit.*, pp.II-2
[60] Louis Uchitelle, "The New Face of US Manufacturing," *New York Times*, Sunday July 3, 1994
[61] Based on analysis of County Business Patterns and Levy, *op.cit.*, In all these areas the region ranks among the national leaders

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Said Hilal (at right)

APPLIED MEDICAL RESOURCES

For fast-growing firms like Applied Medical Resources in Laguna Hills, such existing networks play a critical role. Company founder Said Hilal spent over a decade working within Southern California's well-developed medical instruments industry. When the Lebanon-born entrepreneur launched Applied Medical Resources, his contacts within that community — including doctors, researchers, machine shops and wholesalers — proved an invaluable resource for the start-up company.

"There's a huge difference," Hilal says whose firm boasts 1994 revenues in excess of $15 million and employs over 170 people. "You don't have to spend hundreds of thousands of dollars traveling around for what you need. You can pull on the infrastructure of Orange County-Los Angeles in terms of knowledge and the expertise of people. It's a hard thing to duplicate elsewhere."

One particularly promising field lies in the emerging industries tied to the life sciences. In biotechnology, for example, the region ranks second only to the Bay Area and generated 1992 combined sales larger than the combined biotechnology industries of New England, the Middle Atlantic states and Seattle.[62] In the far larger biomedical field, which includes such things as medical devices, Southern California now leads all the country's regions in employment.[63]

The dramatic rise of these post-Cold War industries reflects a broader, national and global trend toward a new kind of economy. In this new economy, smaller, more flexible firms — often working in alliance with each other and larger companies — are becoming the linchpins of local wealth and job creation. In contrast, nationally, the *Fortune* 500 share of the private sector workforce since the 1960s has fallen from over twenty percent of private sector employment to roughly half that amount.[64] In the current recession, virtually all new job growth has taken place within small- and mid-sized firms, while larger firms with over 5000 employees actually dropped employees.[65]

This pattern has been particularly noticable in the industrial sector. In manufacturing only firms with under 100 employees created any net new jobs (chart 15).[66] Between 1987 and 1992, the five hundred largest industrial companies in America dropped over 1.3 million jobs while smaller manufacturers added 483,000 positions.[67]

BIOMEDICAL LEADER

CHART 15

The Biomedical Industry in the US:
Firms, Employment and Revenues (1994)

Rank	State	Firms	Employment	Revenue (Millions)
1	CA	2,688	134,277	$15,353
2	So. California	1,602	91,584	9,405
3	New Jersey	667	75,280	9,892
4	New York	826	48,003	5,506
5	Pennsylvania	585	36,199	4,409
6	Illinois	553	33,444	4,640
7	Indiana	227	29,970	4,489
8	N. Carolina	247	27,828	3,262
9	Texas	695	26,773	2,756
10	Massachusetts	519	24,814	3,029
11	Florida	707	23,954	2,291

Source: Ahmed A. Enany, 9/19/94

[62] Ernst and Young survey
[63] Ahmed Enany, *Institutions and Innovation in Southern California's Biomedical Worlds of Production*, Ph.D. dissertation, School of Public Policy, UCLA, forthcoming.
[64] Kemper Financial Services
[65] David Birch, Anne Haggerty and William Parsons, "Whose Creating Jobs," Cognetics, Cambridge, MA 1993, p.6, figures 3 and 4
[66] *Ibid.*, p.7, table 1
[67] Michael Selz, "Small Manufacturers Display the Nimbleness the Times Require," *Wall Street Journal*, December 29, 1993, the source of the numbers is Cognetics

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These broad trends are particularly applicable to Southern California. Among the nation's largest metropolitan areas, the Los Angeles area ranked first in the percent of jobs tied to companies with less than one hundred employees and with under $5 million in sales.[68] In Los Angeles County alone, 53 percent of the total private sector employment in the region came from companies less than fifteen years old.[69]

Until recently, few Southern California political, economic and academic leaders acknowledged — much less understood — these shifts and their critical importance to the region's future. For one thing, the new economy is often difficult to measure. Many are "micro-businesses," simply employing just one or two people, often working out of their homes. Greater Los Angeles has three of the top ten areas in terms of people who work at home, traveling the "information superhighway" rather than the freeways.[70]

Southern California will look increasingly to such "micro," smaller and mid-sized firms for its future economic growth. Fortunately, even as larger firms have continued to restructure, by 1994 many of these smaller firms were beginning to show signs of revival, reporting prospects for growth, profits, and new employment, more than their counterparts nationwide (charts 16 and 17).[71]

SMALL BUSINESS LEADS REVIVAL

CHART 16

Survey Question:
In your company, how do you expect the number of employees to change during the next 12 months?

	1	2	3	4	5	6
Increase greater than 10%	15%	12%	22%	6%	10%	9%
Increase 5% to 10%	13%	13%	6%	24%	10%	5%
Increase up to 5%	18%	18%	23%	12%	25%	15%
Stay the same	39%	42%	34%	47%	30%	63%
Decrease up to 5%	10%	13%	9%	6%	10%	4%
Decrease 5 to10%	2%	2%	5%	NA	5%	1%
Decrease greater than 10%	3%	2%	1%	6%	10%	2%

1-Southern California 2-Los Angeles County 3-Orange County
4-San Bernardino & Riverside Counties 5-Ventura & Santa Barbara Counties
6-National Comparison
Source: 1994 Southern California Survey of Small- and Mid-Sized Businesses,
Arthur Andersen Enterprise Group, p.9

CHART 17

Survey Question:
In your company, how do you expect net profits to change during the next 12 months?

	1	2	3	4	5	6
Increase greater than 10%	37%	36%	40%	40%	35%	22%
Increase 5% to 10%	15%	16%	11%	20%	5%	19%
Increase up to 5%	18%	18%	18%	20%	10%	2%
Stay the same	16%	20%	11%		25%	25%
Decrease up to 5%	4%	2%	9%		15%	6%
Decrease 5 to10%	5%	4%	6%	13%		3%
Decrease greater than 10%	5%	4%	5%	7%	10%	5%

1-Southern California 2-Los Angeles County 3-Orange County
4-San Bernardino & Riverside Counties 5-Ventura & Santa Barbara Counties
6-National Comparison
Source: 1994 Southern California Survey of Small- and Mid-Sized Businesses,
Arthur Andersen Enterprise Group, p.8

[68] David Birch, Anne Haggerty, William Parsons, *Corporate Almanac 1993*, Cognetics, Cambridge, MA, 1994, pp. 4,51

[69] Cognetics, Inc., *Corporate Almanac, op.cit.*, pp.94-95

[70] "Edge City Database," "The Information Highway Lives," measuring percentage of people who work at home in three LA areas — Century City/Beverly Hills, Calabasas/101 Freeway, Santa Monica. Downtown San Diego was also on the list, with the number one ranking

[71] "1994 Southern California Survey of Small- and Mid-sized Business," Arthur Andersen Enterprise Group, p.9, questions 6 a, b, c

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John Tu and David Sun

KINGSTON TECHNOLOGIES

Kingston Technologies, in 1993 the top company on the Inc. magazine list of fastest growing private firms with sales now approaching $1 billion annually, was founded six years ago by Chinese immigrants. Built around networks of flexible producers in Southern California, the computer components firm is seen by many as the quintessential network economy company of the 1990s.

Today Kingston is responsible for hundreds of jobs in firms, many of them Chinese owned, and employs directly a 300 person work-force which includes immigrants from at least twenty different countries. "There is a creativity and drive here you won't find in a regular American company," notes Ron Seide, the company's head of marketing and an Ohio native. "There's a lot to be learned from all the different kinds of people here"

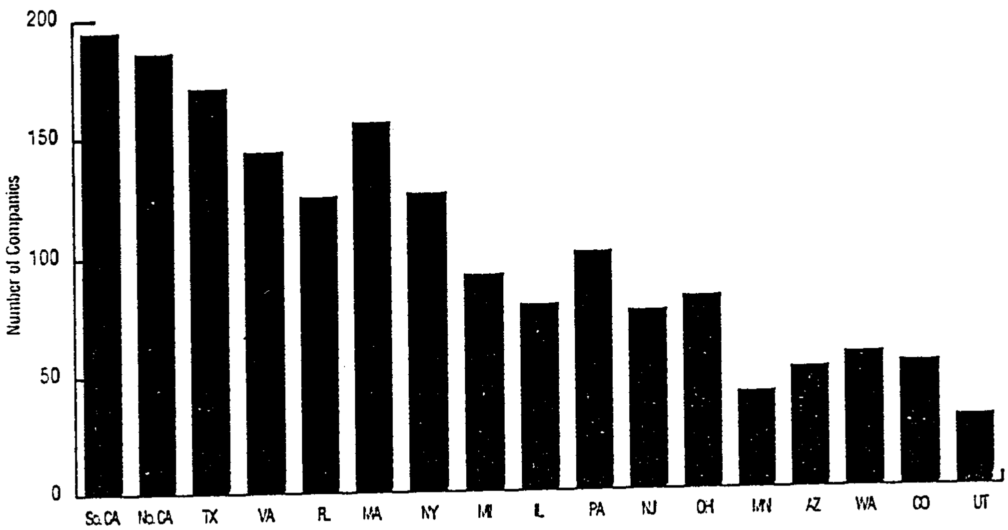
The vitality and basic optimism of these smaller companies are reflected in the fact that 1990 start-up rates for new firms in Los Angeles County are comparable to the record rates of the 1980s — despite the effects of the recession and defense downsizing.[72] Since 1989, Southern California has produced more companies on the *Inc.* magazine list of fastest-growing publicly held companies than has any state (outside California), with more than twice as many entries as all of New York State and roughly two times those based in Texas.[73]

In the privately held sector, Southern California since 1989 has produced more companies on the *Inc.* 500 list of fast-growing privately held companies than any other region in the country and more than the total number for either Texas or New York State, two states with larger populations (chart 18).[74]

The seemingly anomalous co-existence of rapidly growing firms at a time of sustained job losses suggests an economy that is rapidly rewriting its economic scenario, shifting from larger and defense-oriented firms to a new economy dominated by younger, smaller firms and more dynamic companies.

INC. 500 LEADER

CHART 18



Inc. 500 (1989-1993)
Source: Kemper Financial Services

[72] Friedman, "New Economy Project," *op.cit.*, pp.II-9
[73] *Inc.* magazine
[74] *Inc.* magazine

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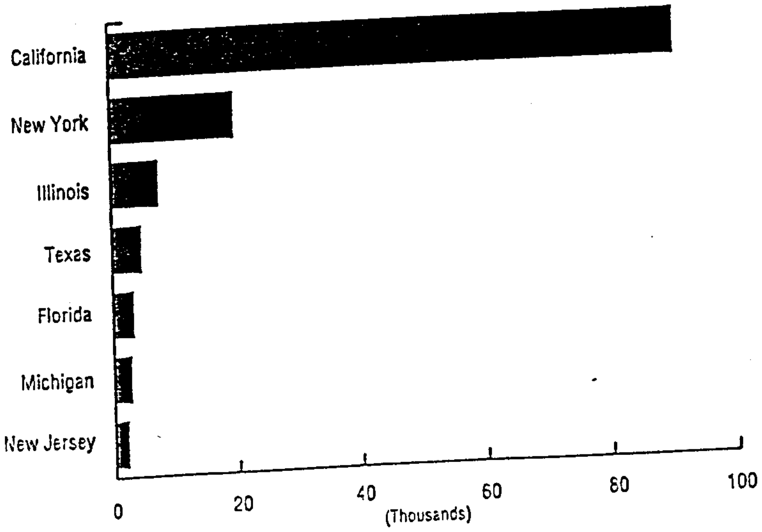
Exemplifying the character of the region's 1990s' recovery is the growing influence of an old, traditional sector — entertainment — in a dizzying array of new, creative industries. Throughout the recession, Southern California's entertainment complex has continued to grow by an estimated 10-12 percent annually.[75]

By the most recent estimates, the entertainment industry — including movies, television, music and commercial production — contributes upwards of $15 billion to the regional economy,[76] employing directly or indirectly over 300,000 workers in Southern California and accounts for roughly 7percent of all non-governmental jobs in Los Angeles county.[77] Equally important, the film industry has become a primary source of higher wage jobs, paying among the highest wages in the country, more than forty percent above the statewide average.[78] By the fall of 1994, for example, starting pay for new animators at some studios was beginning to exceed local business school graduates.[79]

At present Southern California accounts for roughly one out of every two strictly film-related jobs in the country, with more than four times the number of nearest rival New York and twenty times that of Florida (chart 19).[80] Despite a trend to locate elsewhere, certain filming of such products as movies of the week, film production has become more concentrated in the region over the past decade. Nearly 90 percent of all members of the Screen Writers Union live in Southern California[81] and the region also accounts for more than two-thirds of dramatic series, situation comedies and feature film production in the country[82] (chart 20).

UNCONTESTED WINNER

CHART 19



1991 Direct Film Industry Jobs

Source: California Film Commission Film Industry Profile, July 1993, p.5

CHART 20

U.S. Film Starts

Year	Filmed in California	Filmed in Other States	Total	California Share
1985	95	86	181	52%
1986	160	155	315	51%
1987	190	170	360	53%
1988	211	172	383	55%
1989	183	131	314	58%
1990	192	107	301	64%
1991	219	149	368	60%
1992	319	161	480	66%

Source: California Film Commission Film Industry Profile, July 1993, p.6

[75] Friedman, "New Economy Project," *op.cit.*, pp.III-7
[76] Robert Welkos, "Hollywood Adds Billions to State Economy, New Studies Report," *Los Angeles Times*, June 13, 1994, p. D1
[77] David Friedman and Ahmed Enany, "The Economic Impact of Motion Picture, Television and Commercial Production in California: An Economist's Overview," The Public Affairs Coalition of the Alliance of Motion Picture and Television Producers, 1994, draft, p.3
[78] New Economy project, final report, Section II
[79] Catherine Jordan, "New Animation Creates Hot Demand for Artists," *Los Angeles Times*, September 6, 1994, p.D1
[80] California Film Commission, "Film Industry Profile," July, 1993 (draft), p.5
[81] Cheryl Roden, Screen Writers Guild
[82] California Film Commission, "Film Industry Profile", July, 1993, p.6

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Jan Davidson

DAVIDSON AND ASSOCIATES

At Davidson and Associates, a fast-growing multimedia firm, over one hundred new jobs have been created during the recession. Started by former teacher Jan Davidson in 1982, the firm has become a national leader in multimedia educational packages. Its "Math Blaster" is among the most popular instructional programs ever devised and has helped boost the companies sales to over $40 million.

Jan's partner and husband Bob Davidson traces the growth of his firm and the local multi-media industry to the proliferation of entertainment-related skills in Southern California. "The industry used to be viewed as computer-centric and it was viewed as a Silicon Valley business," Davidson explains. "Today it's viewed as media-centric and by that I mean it's also animation, graphics, sound that is viewed as the major component and LA has also been the home of media."

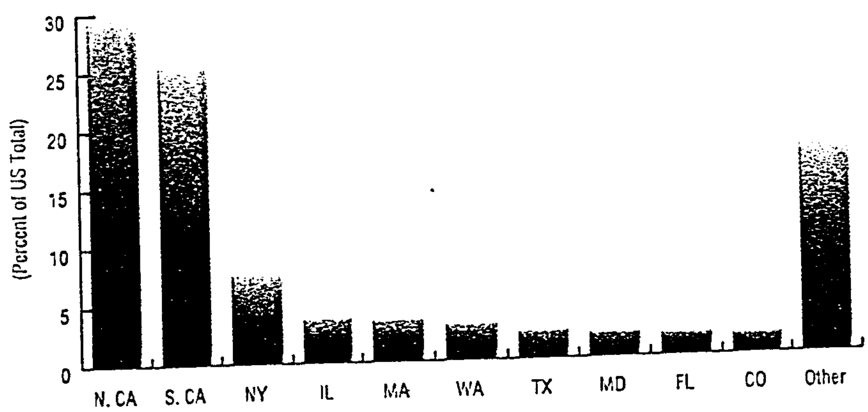
Among large studios alone, investment in Southern California facilities is proceeding at a record pace, with roughly $1 billion in new construction slated over the next few years. Southern California film and television producers also are taking the lion's share of commercial production away from traditional centers in New York and Chicago, boosting the region's market share over the past decade from one-third to roughly one-half.[83]

Even more than other parts of the New Economy, the shift to networks of smaller scale production is particularly evident in the entertainment industry. In 1960, just 28 percent of U.S. films were produced by independent production companies. By 1991, almost two-thirds were independently produced. In just sixteen years the number of entertainment-related companies in Southern California more than tripled, and[84] nearly 95,000 of the industry's total employment consists of free-lance workers or firms employing less than ten individuals.[85]

But remarkable as the entertainment complex's growth has been, its influence on the regional economy goes well beyond filmed entertainment. In fact, the project by project, innovative, collaborative and highly adaptive skills fostered by the industry are proving to be those talents necessary to succeed in emerging industries such as multimedia and in reinvigorating older industries in the highly competitive 1990s.

In multimedia, for example, the region ranks second only to the Bay Area with over 152 multimedia firms, accounting for one out of every four in the nation. That number amounts to more firms than found in the entire states of New York, Illinois, Massachusetts, Washington, Texas, Maryland and Florida combined (chart 21).[86] Increasingly, companies are finding that sucess in the multimedia arena involves the mix of technology, creativity and marketing which is the unparalleled trademark of Southern California's entertainment complex.

CHART 21 MULTIMEDIA LEADER



Multimedia Firms/Percent of US Total
Source: Fort, Clacy: Samel, Jon, *The Multimedia Directory*, 2nd Edition, The Carronade Group, Los Angeles, CA, 1994

[83] California Film Commission, *op.cit.*, p.5
[84] Friedman, *New Economy Project*, draft, *op.cit.*, pp.III-6
[85] Welkoss, *Los Angeles Times*, *op.cit.*, p.c2
[86] *Multimedia Directory*, 2nd edition, 1994, The Carronade Group, chart by Mark Dowling, Center for the New West

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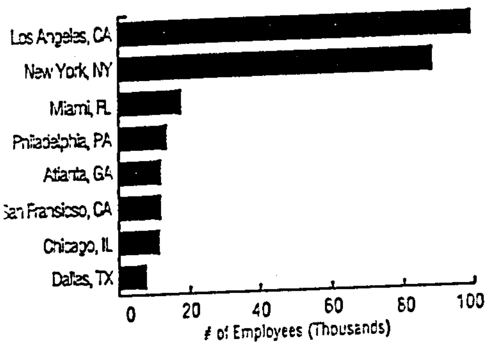
> *Los Angeles ~ thermometer of the 20th Century. Everything's going through it" explains Jerde*

The entertainment industry technology is also moving into a wide array of commercial businesses — essentially reflecting the "Hollywoodization" of American life. Southern California entertainment firms are pioneers in the development of "theatrical architecture," including theme parks, retail stores and even commercial buildings. Companies such as Showscan and a handful of Disney spinoffs — Burbank-based Iwerks, AVG Inc., and BRC Imagination Arts — are busily developing theme attractions from Japan to Connecticut.[87]

WINNER OF THE RAG WARS

CHART 22

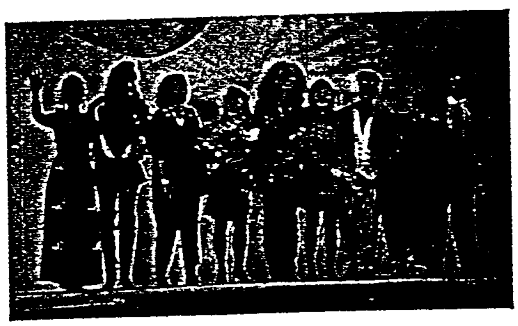


Manufacturing—Apparel & Other Textile Products By County/State
Source: CBP 1991, Prepared By: Diversified Data Services, Inc.

The same creative edge is also evident in the region's architectural firms. Top local architects, such as Frank Gehry, have gained prominence in designing such international masterpieces as Gehry's new American Center in Paris. Several others — David Martin, Jon Jerde, Josh Schweitzer, Fred Frischer, Ted Tanaka — all have had projects in Japan.[88] "Los Angeles is the thermometer of the 20th Century. Everything's going through it," explains Jerde, who designed the Westside Pavilion and Fashion Island in Newport Beach.[89]

Similarly, the creative edge has driven the remarkable growth of the Southern California apparel industry. Los Angeles County, for example, now has the nation's largest garment industry, with nearly 11,000 more workers than second place New York and nine times as many as third place Miami (chart 22).[90,91] Since 1988, the industry's sales have expanded from roughly $5.6 billion to over $9 billion in 1993.[92]

Southern California's design firms — Bugle Boy, Guess, S.W.A.T., Rampage, BUM Equipment, PCH, Body Glove — define the lifestyle look for younger Americans and the rest of the world. Increasingly, these designs reflect the cultural energy and diversity of the region. Nearly half the designers at the 3000 student Fashion Institute of Design, for example, are African American, Latino or Asian.[93]



Tom Yuen

NUREALITY

With a strong and growing computer industry, based heavily in Orange County, and unparalleled creative resources, some farsighted entrepreneurs, such as Tom Yuen, see the region as the long-term dominant force in the multimedia. Yuen, one of the founders of AST Research, is also President of Nureality, a fast-growing multimedia conglomerate with several key technologies, including Surround-sound, an audio system now being employed for multimedia computers.

"The personal computer revolution only hit the [illegible] side of things," notes Yuen. "Multimedia hits a far wider set of people and will be bigger, my instincts tell me, than personal computers in the long run. And my instincts have been right before."

[87] Steve Ginsberg, "Lot of Disney blood surges through theme park world," *Los Angeles Business Journal*, June 21, 1993, p.1
[88] Barbarta Isenberg, "The Hot Wave from LA," *Los Angeles Times*, Calendar Section, September 15, 1991, p.4
[89] Laura Accinelli, "In Love with LA," *Santa Monica Evening Outlook*, November 26, 1990, p.C1
[90] Based on County Business Patterns, 1991, prepared by Diversfied Data Services
[91] SCAG, *op.cit.*, p.2-18
[92] Industry sources; Los Angeles Chamber of Commerce, 1989
[93] FIDM

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Jonathan Katz

BERMAN-KATZ

Jonathan Katz, founder of Cinnabar, one of Hollywood's leading propmaking firms, now with partner Linda Berman, also is involved in the business of what he calls "theatrical architecture." Among Berman-Katz's recent projects have been creating a design for new retail outlets for a restaurant chain, designing kiosks for Pepsi, and providing props for a garment manufacturer's new line of clothing stores.

"The techniques and experiences of entertainment are moving into leisure time activities of all venues," observes firm co-founder Katz at his 1930s style headquarters on the venerable Hollywood Center Studios lot. "And those kinds of venues are using entertainment techniques to be more attractive and get people to come and stay there."

As the design and manufacture of clothing in the region has grown, there has also been a rapid rise in regional textile production. Los Angeles is now the nation's leading county for knitting, printing and dyeing production.[94] As a result, today the Los Angeles-Long Beach area has more textile workers than any major metropolitan region in the country, surpassing traditional leaders such as New York City and the Raleigh area (chart 23).[95]

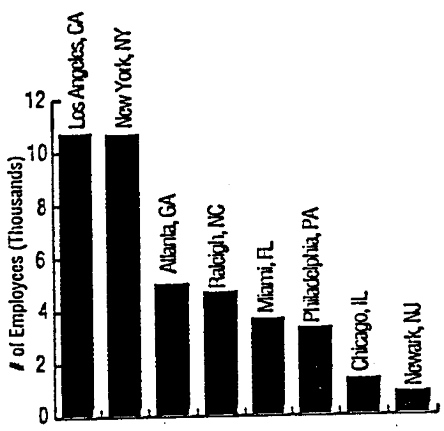
Southern California's creative edge also extends to a host of other endeavors. For example, virtually all the leading automakers in the world — including General Motors, Ford, Mazda, Volvo, BMW, Mitsubishi, Mercedes — avail themselves to the roughly sixteen car design studios in the region.[96] No other region distant from the centers of large-scale automobile production has become so universally influential.

Increasingly this design edge is helping to re-energize industries, such as furniture, that have been in chronic decline in Southern California.[97] Recognizing that they can't compete with generic furniture products in the highly competitive global economy, some resurgent Southern California furniture makers, like many firms in high technology, have begun developing highly flexible networks of local subcontractors and customers.[98] Equally important, these producers — like their garment, automotive and architectural counterparts — are capitalizing on "the California look" to offer unique styles and to secure premium profits in world markets.

The creative edge is even fostering the growth of yet another unlikely industry: cosmetics and shampoos. By focusing on the Southern California lifestyle, a host of entrepreneurial success stories — including Neutrogena, Hayashi, Freeman Cosmetics and St. Ives — have emerged over the past decade. A small cottage industry twenty years ago, the cosmetic industry, by 1991 had more companies and more employees than any other region in the country[99] (chart 24).

A TEXTILE GIANT RISES IN THE WEST

CHART 23



Manufacturing—Textile Mill Products By County/State

Source: CBP 1991, Prepared By: Diversified Data Services, Inc.

LOOKING GOOD

CHART 24

Cosmetics			
Counties	# of Employees for week Including 3/12	Payroll Annual (1,000)	Total Number Establishments
Los Angeles, CA	7,698	214,032	169
Cook County, IL	7,382	217,904	98
Atlanta, GA	5,217	161,356	78
Miami, FL	5,124	183,374	82
Dallas, TX	2,421	67,625	56
Harris, TX	1,143	37,190	42
Philadelphia, PA	371	12,387	19
New York, NY	130	3,206	21

Source: Consumer Business Patterns, 1991

[94] Friedman, "The New Economy Project," *op.cit.*, III-9-10
[95] Based on County Business Patterns, 1991, prepared by Diversified Data Services
[96] Greg Miller, "Southland Is a Battlefront in Struggle to Design Future Vehicles," *Los Angeles Times*, July 13, 1994
[97] Steven Martin Herman, "The Los Angeles Household Furniture Industry: An Alternative View Based on an Industrial District Analysis," thesis for Master of Arts degree in Urban Planning, UCLA, 1994, p.2
[98] Herman, *op.cit.*, pp.49-57, pp.64-65
[99] County Business Patterns, 1991, prepared by Diversified Data Services

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If the creative edge is a major force shaping Southern California's emerging economic resurgence, the region's growing global ties may well prove just as important. According to the World Trade Center Association in Long Beach, foreign trade-related employment in Southern California grew by 300,000 persons over the past five years.[100]

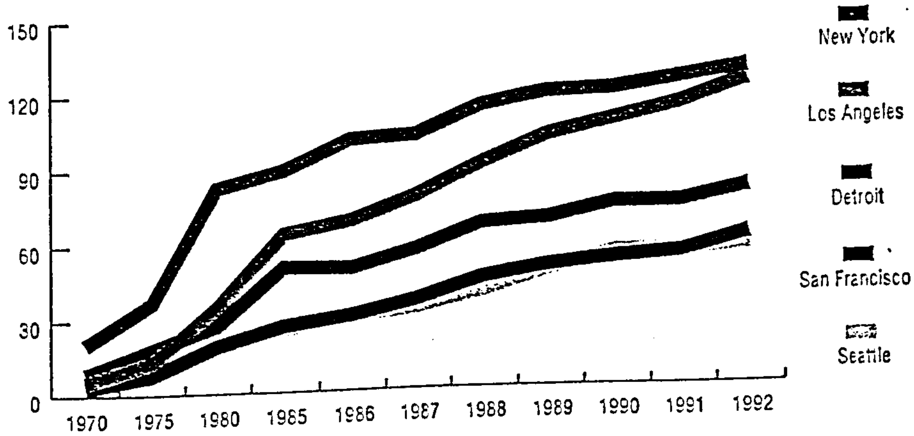
Since 1970 the value of shipments through Los Angeles County ports has grown far faster than those of its traditional competitors on the East Coast and now stands virtually even with New York, long the dominant trading region in North America (see chart 25).[101] Over the same period the region's overall share of U.S. foreign trade has nearly doubled to over twelve percent.[102]

"The world is buying what we produce," notes Phil Roman, "There's something unique that comes out of here that comes from nowhere else."

Not surprisingly, one place where export trade has been particularly marked is in entertainment-related fields. Between 1990 and 1992, Hollywood helped the United States boost its film trade surplus from $3 billion to $3.5 billion. Barely thirty percent of film revenues in 1980, foreign sales accounted for over half of all sales in 1994 and are expected to reach 70 percent by the year 2000.[103]

"The world is buying what we produce," notes Phil Roman, founder of Film Roman, an animation company whose products include "Garfield" and the "The Simpsons" which are sold throughout the world. "There's something unique that comes out of here that comes from nowhere else."

CHART 25 MOVING TOWARD TRADE LEADERSHIP



Value of International Trade
Leading Customs Districts
Source: Int'l Intelligence Services, p.49, Prepared by Anshu Agarwal

[100] Estimates by The Greater Los Angeles World Trade Center Association, Merry Tuten President
[101] Chart derived from customs data, prepared by Diversified Data
[102] "California Economic Growth," *op.cit.*, pp.10-11
[103] Alan Citron, "Hollywood Goes Boffo Overseas," *Los Angeles Times*, March 30, 1992, p.A1

Nancy and John Genova

JOHN CHARLES DESIGNS

At firms like John Charles Designs in Cerritos, for example, employment has been growing through the recession. At the company's newly expanded factory workers follow the production of each sofa and recliner from start to finish. In 1994 alone, the company added fifty new workers.

Company co-founders John and Nancy Genova credit their success to a combination of craftsmanship with a California style. "We give them a tremendous fabric assortment...we give them terrific style," Nancy Genova asserts. "And we give them a good value with a lot of flair. They can't help but buy it."

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Bob Berglass

DEP

Bob Berglass, President of DEP, one of the most successful of the Southern California-based shampoo firms, says image is the key to success in the cosmetic market. And he sees Southern California's image as a big plus. In fact, his hottest product now — particularly in foreign markets — is called LA Looks.

"We've been selling LA Looks for five years and we've sold over one hundred million pieces of the product," Berglass says. "We went around the country to find out what their image was of LA and found that the idea was well-received. So we went out and shot the commercial — shot here in LA — and we gave them what they wanted. It's not just here in LA, but it's big in the country and it's big throughout the world. We're exporting LA everywhere."

As with the creative edge, the image of Hollywood also enhances Southern California's international appeal in many other ways. As home to the globally dominant entertainment medium as well as beaches, amusements and "the California look," the region lures an estimated 5.2 million foreign visitors annually who spend about $2.4 billion in Los Angeles County alone.[104]

Today Los Angeles ranks second only to New York in its share of foreign visitors, with the highest concentrations on the mainland for such key and growing tourism markets in East Asia such as Korea, China, as well as Mexico.[105] With international visitor spending up 72 percent since 1989[106] and international travelers now consuming an ever growing part of the national tourism pie chart,[107] this international appeal will likely become even more critical in the years ahead.

Like entertainment and creative-oriented firms, Southern California's international economy withstood the recession of the past years. This growth — in the midst of a grueling global economic slowdown — stems largely from the unique geographic and human ties between this region and the world's fastest growing economies.

A critical factor has been the expanded trade with Asian-Pacific nations, which now accounts for roughly 40 percent of the region's trade[108] and all ten of the Southern California customs district's leading trade partners as well as nine of the ten fastest growing.[109] Combined with long-lasting ties with the critical European Union economies, Southern California's export economy has continued to expand more rapidly than the national average over the past decade (chart 26).[110]

At the same time, trade with Mexico, spurred by NAFTA, has also been expanding rapidly as is trade with South America. Statewide trade with Mexico has been expanded at double-digit rates over two of the last three years. Growth has been even more spectacular in some areas of Southern California, particularly export-oriented regions such as Orange County.[111]

CHART 26 **EXPORT GROWTH**

Los Angeles Basin Foreign Trade
Value of Exports and Imports
1983-1993

1983	$17.1
1992	49.4
1993	48.3

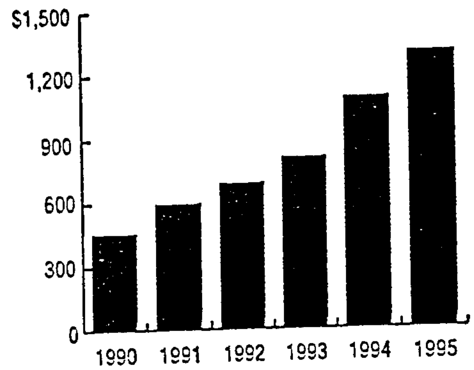
Average Annual Growth Rate 1983-1993

LA Basin	10.9%
California	10.9%
United States	8.8%

Source: California Economic Growth, Center for Continuing Study of the California Economy, 1994, pp.10-11 (partial graph)

THE MEXICAN CONNECTION

CHART 27



OC Exports to Mexico
Source: Institute for Economic and Environmental Studies, California State University, Fullerton
Orange County Business Journal, July 11, 1994, p.23

"1992 Overseas Visitor ProfileSurvey," CIC Research, San Diego, October 29, 1993
"International Visitors to the US and Estimated Volumes to California and LA 1992-1993"
"International Travel to and From the United States: 1994 Outlook," prepared by Ron Erdmann, US Travel and Tourism Administration, chart "Total receipts from international visitors"
Ibid., "As Tourism Grows, International Visitor Spending Grabs a Bigger Part of the Pie: A Five Point Gain Since 1989"
"California Economic Growth," *op.cit.*, pp. 10-12
Prepared for the Center for the New West by Tradeweek
"California Economic Growth," *op.cit.*, pp.10-11
Michael Lyster, "NAFTA's Early Returns for OC Companies," *Orange County Business Journal*, July 11, 1994, p.1,23

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Taylor-Dunn factory

TAYLOR-DUNN

At Taylor-Dunn, an electric vehicle manufacturing firm in Anaheim, sales of chassis and drive trains to Mexico have grown since 1991 from less than a million to nearly nine million annually. Spurred by exports to Mexico and other foreign markets, as well as growing domestic demand for the non-polluting vehicles, Taylor-Dunn has added over fifty workers in the past year.

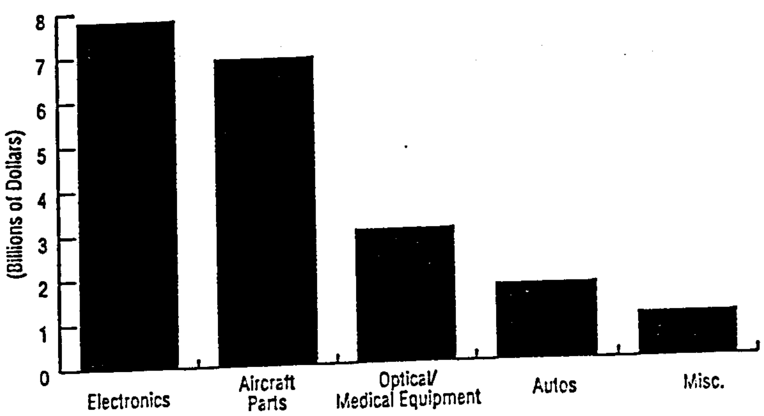
"Mexico is growing faster than any foreign market—it's use of electric vehicles as a way of cutting pollution fulfills a real need," explains company CEO Jim Goodwin, a former aerospace company manager. "NAFTA has given this whole business a huge boost."

Southern California's exports are as diverse as the region's economic base. Outside of business services, entertainment and other non-merchandise items, the leading exports are dominated by high-value added products such as airplanes, integrated circuits, microassemblies, data-processing equipment, car parts, computer storage devices and medical instruments (chart 28).

Consistent with the transition to the new economy, the lead in Southern California's exporting is coming not so much from traditional large exporters but from smaller companies. In 1994 it had more companies on the *World Trade Magazine* list of 100 fastest growing exporters than any state (outside California), as many as the combined states of Massachussetts, Florida, Illinois, Minnesota, New York and Arizona (chart 29).[112]

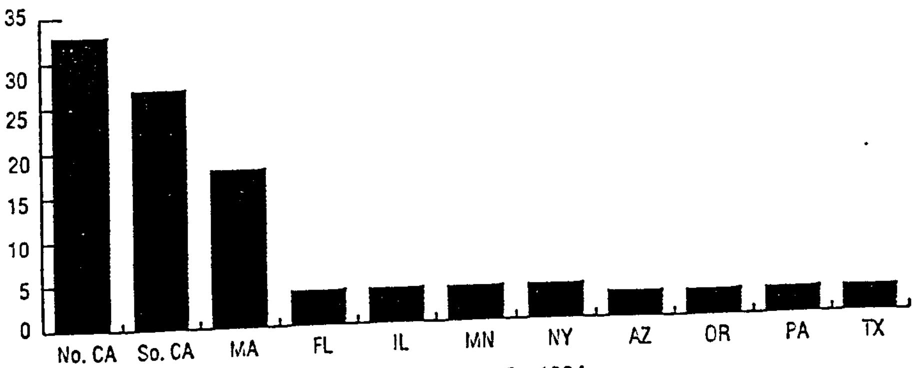
In many cases these firms are also taking advantage of their own unique links to fast-growing economies from China and Taiwan to Latin America. As the nation's leading immigrant center, Southern California has become a crossroads for financial, technical and trade flows driven by far-flung ethnic networks, particularly in rapidly growing regions such as East Asia and Latin America.

CHART 28 HIGH VALUE EXPORTS



L.A.'s Top Merchandise Exports
Source: Trade Watch Data Service

CHART 29 FAST TRACK EXPORTERS



World Trade 100 - 1994
Source: *World Trade Magazine*

[112] Compiled from "The World Trade 100," *World Trade Magazine*, draft list provided by Larry Delaney, includes San Diego in numbers for Southern California

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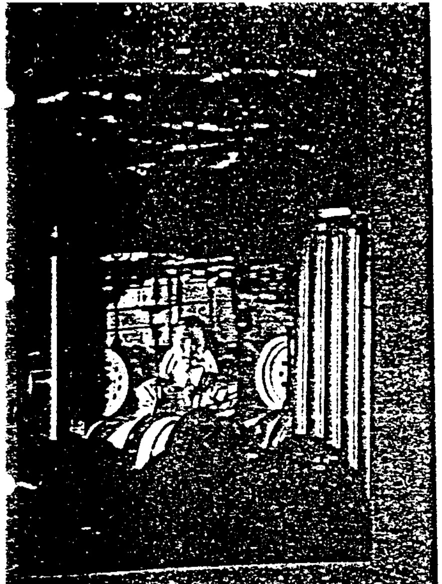

Anthony Munoz

CAR PARTS

Long Beach-based Snugtop Industries exports customized covers for pick-ups to growing markets in Asia, Europe and Latin America. Two Southern California wheel-manufacturers — Superior Wheel and American Racing — are dominant powers in the growing specialty market for designer wheel casings. Four years ago, American Racing sold only 2500 of its customized wheels abroad; today it's shipping more than 150,000 to over forty countries around the world.

To American Racing International sales manager Anthony Munoz, his companies' overseas success has as much to do with California imagery than how the firm bends metal: "That raises all kinds of visions and myths in the foreign consumer of palm trees, beautiful sunsets and Hollywood. Fast and fancy cars and all of this perception of image helps our business tremendously."

That Southern California indeed has a next act is increasingly clear. Business failures have begun to drop dramatically, falling within the year leading up to June 1994 by more than one-third.[113] The region's largest banks, which some eastern analysts predicted would not survive,[114] all managed to recover and, by 1994, most were thriving.[115] Hotel occupancy rates, which had fallen after the 1992 riots shot up over 12 percent in the year leading to the summer of 1994.

Despite predictions of a wounded housing market, home sales began to grow — reaching a four year high[116] — with prices beginning to stabilize. Indeed even as Hughes Aircraft prepared to leave its huge Fullerton facility, home-builders were lining up to purchase parcels to meet burgeoning consumer demand for new houses.[117]

On the commercial side, vacancy rates began to decrease, particularly in Orange County,[118] the Inland Empire, the East San Fernando Valley and the westside of Los Angeles.[119] Job creation, particularly in Orange County and the Inland Empire began to outpace layoffs, with trade, non-defense manufacturing and services overcoming the tide of aerospace-related layoffs.[120]

Perhaps most encouraging of all, the region seemed to be recovering rapidly from the devastating Northridge earthquake of January 1994. Shortly after the quake, many state and national newspapers predicted that the "exodus" from the state would become a "torrent."[121] Instead public perceptions in both the state and region began to actually improve after dropping for most of the 1990s.[122]

Outbound rentals of U-Hauls, which in 1990 exceeded incoming by a full 15 percent, by early 1994 were only one percent more numerous. "People are returning — not hordes and droves, but here and there, in pairs and small groups," noted the *Portland Oregonian*. "They are moving back across the borders, often to pick up where they left off."[123]

Equally important, there were signs that the other kind of much reported exodus— that of businesses — was also slowing. The most recent Dun and Bradstreet information, for example, found that most companies in the 40 mile radius of the Northridge quake had, despite the firm's own expectations, actually improved their status in the first six months after the temblor.[124] The rate of business relocations, according to recent surveys, actually peaked in 1992 and fell precipitously in both 1993 and the first six months of 1994.[125]

113 "Southland Economic Trends," *Los Angeles Times*, September 19, 1994, D2
114 See Ralph T. King, *Wall Street Journal*, August 27, 1991, page 1, King quotes stock analyst Michael Murphy as predicting that three of the state's four banks "can't survive"
115 See David W. Meyers, "Big California Banks Report Strong Gains," *Los Angeles Times*, April 20, 1994, p.d1
116 Salomon Brothers Estimate Cited in "California's Comeback," *The Economist*, July 23, 1994
117 Nidal M. Ibrahim, "Homebuilders Lining Up at Hughes Site", *Orange County Business Journal*, September 26, 1994, p.11
118 "Orange County Office Space Absorption," *Orange County Business Journal*, April 11, 1994, p.6
119 King article, *Wall Street Journal, op.cit.*; recent estimates by Dennis Macheski, Price Waterhouse
120 "Executive Summary," *Orange County Business Journal*, September 26, 1994; John Husing, *Inland Empire Quarterly Economic Report*, July 1994; John O'Dell, "Forecast for Orange County Bright," *Los Angeles Times*, June 24, 1994, Grubb and Ellis, First Quarter, 1994
121 Robert Lindsey, "Another Disaster Dims the Golden State's Luster," *International Herald Tribune*, April 18, 1994, p.1
122 Based on *Los Angeles Times* poll, March 31, 1994, p.A22
123 Nidal M. Ibrahim, "More Good News: U-Haul Deficit Disappearing," *Orange County Business Journal*, May 2, 1994, p.11; Patt Morrison, "California Dateline," *Los Angeles Times*, September 3, 1994
124 Cited in Sam Enriquez, "Economic Rebound Undeterred by Quake", *Los Angeles Times*, October 4, 1994, p.A1, A13
125 Cited in David W. Myers, "California, Here We Stay", *Los Angeles Times*, July 28, 1994, p.D1

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These findings parallel other recent surveys which have found renewed business confidence in the region, boosted in part by key regulatory reforms, sweeping changes in the troubled worker's compensation system and a generally friendlier governmental environment. Some companies, such as Fender Guitar in Corona and several textile firms, are beginning to shift production back to Southern California from other states.[126] Outside investor interest — particularly from Wall Street and overseas Chinese sources — also showed signs of picking up.[127]

As it transitions into the its next act, Southern California remains well-positioned to enjoy a powerful and sustained long-term recovery out of the ashes of the federal defense-led decline. According to projections by the Center for the Continuing Study of the California Economy, the region's fundamental economic strengths are all expected to propel the region ahead of national norms in both absolute number of income, new jobs and increases in production.[128]

But these projections are clearly dependent on actions taken, and attitudes adopted, among Southern Californians. Already what a recent report called "unmoderated negativity" continues to plague business and effect investor confidence, often with little rational basis.[129] To prevent long-term stagnation brought on by loss of confidence, Southern Californians must be willing to look beyond the present difficulties and envision a new future. Nostalgia for "better times," whether rooted in fact or fantasy, can only serve to slow the region's progress.

CHART 30 A BRIGHT FUTURE

Los Angeles Basin Income and Taxable Sales
1980-2005 (1993 $)

	Per Capita Income	Average HH Income	Total Personal Income (Billions)	Taxable Sales (Billions)
1980	$20,929	$57,463	$242.6	$122.4
1990	22,914	67,114	335.5	149.9
1993	21,216	64,460	329.3	127.0
2005	26,076	79,452	447.2	198.6
Average Annual Growth Rates				
1980-1993	-0.9%	1.6%	3.3%	2.0%
1990-1993	-2.5%	-1.3%	-0.6%	-5.4%
1993-2005	1.7%	1.8%	3.1%	3.8%
California	1.7%	1.5%	3.3%	3.9%
United States	1.5%	1.1%	2.4%	2.5%

Source: California Economic Growth, Center for Continuing Study of the California Economy, 1994, pp.10-21

[126] Patrick Lee, "Playing a New Tune," *Los Angeles Times*, September 5, 1994, p.D1,4, survey based on Economic Development Corp. of Los Angeles County data
[127] Antony Michels, "Riding California's Recovery," *Fortune*, August 22, 1994, p.35; Peter Lynch, "Prospecting in California," Worth, December/January 1994, p.33: Chinese real estate sources
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Joe Kleizel

DEVON INDUSTRIES — UP FROM THE RUBBLE

The January 17th Northridge quake rumbled right under Devon Industries San Fernando Valley offices, demolishing much of its factory and office complex. But within less than three days, the company, operating out of temporary shelters was back in business and, by the summer, virtually the entire biomedical firm's four hundred person work-force was back at the job.

"It was one of the most difficult things that I've ever seen outside of my time in the Marine Corps. Looking at the destruction, it looked like we had taken a direct hit from a bomb," admits company President Joe Kleizel. "But everybody pitched in and turned things around. It was very motivating to see the attitude of the people here."

BOE-C6-0092819

Neale Perkins

SAFARILAND

For more than thirty years, Ontario-based Safariland has been a leading manufacturer of sporting goods. Neale Perkins started the company in his garage and made his first big break when his newly designed police gun holsters became popularized on the old TV series "Adam Twelve."

Now, like many mid-sized Southern California firms, Safariland has been finding its fastest growing markets abroad, most particularly Taiwan, Mexico and Australia. Over the past five years the company, which employs four hundred and with revenues of $75 million, has seen its overseas sales jump by 500%.

Fundamentally, Southern California's economic future lies in exploiting several key advantages:

- An unparalleled critical mass of diverse, strategic industry clusters, covering a broad array of service and industrial fields including biomedical manufacturing, textiles, garments, multimedia, entertainment, tourism, engineering and environment services

- A diverse, growing and youthful population with a diverse range of skills including large numbers of well-educated professionals, a highly motivated, work-oriented immigrant population and strong entrepreneurial spirit

- Highly flexible, adaptive companies built to compete in the fragmented world of today's evolving New Economy that is even now building the basis for new growth in the post-Cold War era

- An unusually deep base of business service and part subcontractors, an important force in achieving the flexibility and quick turn-times critical in today's fast paced global economy

- Creativity as a core competence, including the world's dominant entertainment complex as well as, with powerful impacts on a host of creative industries from product design to fashion, cosmetics and home furnishings

- The best strategic trade location in North America, bolstered with close human ties, to the world's two fastest growing regions, Latin America and East Asia

The methods to best recharge the region's economic engine vary and are open to considerable debate. The public, social and economic policy options vary widely, but the fostering of closer ties among businesses within clusters and a deeper commitment to private sector development by the public sector are critical to leveraging the region's vast economic resources.

But upon one thing all else depends: the restoration of public confidence and faith in the region's long term prospects.That means, more than anything else, Southern Californians must realize — and communicate to the world — that this region still possesses a remarkable economic, cultural and creative dynamism unmatched by any major urban region in North America. Only by recognizing these intrinsic strengths, and devising strategies to maximize them, can Southern California's next act prove a successful one.

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6

GASCON MAR LTD.

GASCON MAR LTD.

Gascon Mar Ltd. ("GML") is a Torrance and San Diego based real estate development and asset management company.

GML's unique qualifications include proven expertise in all types of real estate development activity and superior insight into market trends and potential investment opportunities in Southern California.

GML PRINCIPALS

GML is a California Limited Partnership, established in 1985. The general partners are:

- Mar Development Corporation, owned by Allan W. Mackenzie
- Chantal, Inc., owned by Neil D. Gascon

The two principals combine over 40 years experience in the real estate industry.

- Allan Mackenzie earned a Master's degree in Land Economics from Cambridge University in England. Prior to forming Mar Development Corporation, Mr. Mackenzie ran the Southern California operations of an British-Canadian real estate investment and development company.

GML PRINCIPALS (continued)

- Neil Gascon earned a degree in Accounting from San Diego State University, and is a Certified Public Accountant. Prior to forming Chantal, Inc., Mr. Gascon was President of the Penasquitos Properties Division of Genstar Corporation, one of San Diego's largest real estate development firms.

KEY GML EXPERTISE

GML has particular expertise in the following areas:

- Leasing and Selling: GML manages for lease and sale commercial, industrial and residential property, and maintains occupancy rates in excess of 95% on its investment portfolio.
- Land Use Processing: GML has obtained land use entitlements on property throughout Southern California, and has specialized in taking raw land through to a finished lot basis and subsequent construction.
- Construction: GML has State Building and Engineering Contractors licenses, and has constructed all types of buildings as well as site improvements.

KEY GML EXPERTISE (Continued)

- Hazardous Waste Remediation: GML has required state licenses for remediation work, and has coordinated the successful remediation of a tubing plant, a steel works and an oil refinery, from demolition through construction and leasing.
- Financial Analysis and Reporting: GML's experience, coupled with sophisticated analytic software, enables the partnership to analyze both development and investment properties, and provide reports of a standard required by institutional investors.
- Redevelopment: GML has been involved in several redevelopment projects successfully negotiating and funding participation agreements with Redevelopment Agencies.
- High Technology/Multimedia: GML has undertaken projects specifically geared to the needs of technology based tenants, and is in the forefront of efforts to create a center for technology based multimedia firms in the Los Angeles area.

GML PROJECTS

Recent projects undertaken by GML include the following:

- Carroll Vista Center: 108,000 square foot research and development building in San Diego, California.
- Mesa Rim: 80,000 square foot research and development building in San Diego, California.
- Sabre Springs: 85,000 square foot multi-tenant research and development building in San Diego, California.
- Torrance Center I: 250,000 square foot office complex in Torrance, California.
- Torrance Center II: 800,000 square foot retail/office park in Torrance, California (former site of Armco Steel Works).
- Carson Town Center: 900,000 square foot retail/industrial project in Carson, California (former site of Golden Eagle Refinery).

GML PROJECTS (Continued)

- Gramercy Plaza: 150,000 square foot office building in Torrance, California (winner of Los Angeles 1994 Building of the Year Award from the Building Owners and Managers Association).
- Otay La Media Center: 33 acre highway commercial center in San Diego, California.
- Downtown Torrance: Mixed use project with 201 residential units, 400 car garage, and 50,000 square foot specialty retail in Torrance, California (winner of 1994 Grand Awards for Best Mixed Use and Best Redevelopment Projects from the Pacific Coast Builders Conference).
- San Diego, California, and Las Vegas/Henderson, Nevada: Various single family residential projects.

FINANCIAL RELATIONSHIPS

GML's projects are predominately undertaken in joint ventures with landowners or substantial United States or overseas equity sources. Current partnership relationships exist with the following entities:

- Lasmo Oil and Gas, Inc. (subsidiary of Lasmo PLC).
- ANA Real Estate U.S.A., Inc. (subsidiary of All Nippon Airways Co., Ltd..)
- Pardee Construction Company, Inc. (subsidiary of Weyerhauser Corp.)

CURRENT GML FOCUS

GML is currently concentrating on opportunities in the following areas:

- Acquisition and management of underperforming investment assets.
- Coordination of redevelopment activities on obsolete industrial facilities.
- Development and management of facilities geared to multi-media and entertainment related tenants.
- Development of single family residential projects in high growth suburban markets.

REDEVELOPMENT OF OBSOLETE INDUSTRIAL FACILITIES

Restructuring of the economy of Southern California and the consequent reduction in aerospace and manufacturing employment have resulted in the need to recycle and redevelop former industrial facilities for higher uses. GML offers owners of these facilities the following:

- Preparation of highest and best use studies to determine the most feasible reuse opportunities.
- Financial analysis and scheduling.
- Considerable experience in land use processing, including all activities necessary to evaluate, promote and entitle alternative uses.

REDEVELOPMENT OF OBSOLETE INDUSTRIAL FACILITIES (Continued)

- Coordination of environmental remediation, including agency negotiation, selection and coordination of consultants, coordination of clean-up activities, and negotiation of cost allocation.
- Design and installation of site infrastructure.
- Negotiation of financing agreements with Redevelopment Agencies.
- Marketing and selling.

ACQUISITION OF UNDERPERFORMING ASSETS

Although a recovery in real estate investment asset values has commenced, GML believes that opportunities still exist to acquire such assets in the Southern California marketplace at historically low values. GML is preparing to form an equity fund for the acquisition of property with the following attributes:

- Total portfolio of approximately $50,000,000.
- Property types to include Class ‘A’ retail, office and industrial in Southern California and adjacent areas, in good markets with minimum obsolescence.
- Diversification to ensure that a balance of types and locations maintained, with limited exposure to any one tenant or project.
- Sufficient leasing upon acquisition to service equity funding.

ACQUISITION OF UNDERPERFORMING ASSETS (continued)

- Upside on lease-up to show 11%+ return before leverage.

GML has the experience and in-depth market knowledge to locate, enhance and leverage the value of appropriate projects.

DEVELOPMENT OF FACILITIES FOR THE MULTI-MEDIA INDUSTRY

For the balance of the millennium, the most significant growth industry in Los Angeles County is projected to be entertainment and multi-media. This industry already employs more people than the aerospace industry.

Representing a coalescence of high technology and entertainment related creative industries, the multi-media industry has unique financing, location, space and infrastructure requirements, which have yet to be met in any one project.

With past experience in high-technology focused development, and current ownership of technology oriented incubator projects, GML has invested substantial resources to achieve a clear understanding of this industry preparatory to undertaking the development of facilities geared to the multi-media industry.

DEVELOPMENT OF SINGLE FAMILY RESIDENTIAL PROJECTS

With continued population growth in Southern California, particularly in suburban regions, opportunities for construction of single family homes in high growth market areas are expected to be ongoing. GML seeks projects with the following attributes:

- Project size to ensure maximum two year absorption for avoidance of adverse economic cycles.
- Fully entitled to minimize development risk.
- Finished homes to sell in the affordable or moderate price range.

ALLAN W. MACKENZIE *RESUME*

One of two partners behind Gascon Mar Ltd., Allan W. Mackenzie brings more than 17 years of specialized real estate experience to the company's mixed-use development and redevelopment project portfolio. Specifically, as President of Torrance based Mar Development Corporation, he has been responsible for the completion of more than $200 million in commercial office, retail, industrial, and R & D projects across Southern California.

A California limited partnership formed in 1985 to meet increasing development demands in Los Angeles and San Diego Counties, Gascon Mar Ltd. consolidates the real estate expertise of Mar Development Corporation with Chantal, Inc., a leading San Diego based residential development and marketing concern headed by Neil D. Gascon. Collectively, the two are in a unique position to direct various development and redevelopment ventures in the Southland.

Mackenzie's academic and professional accomplishments span two continents and three countries. A native of Aberdeen, Scotland, he received his bachelor's and master's of arts degrees, and land economics degrees from the University of Cambridge before being named an Associate of The Royal Institution of Chartered Surveyors, the United Kingdom's largest and most prestigious professional real estate organization.

Prior to forming Mar Development Corporation, where he works with a variety of United States and international development partners, Mackenzie oversaw the Southern California office of LPI Corporation, a leading Canadian real estate development and investment firm. In this capacity, he was responsible for the acquisition, development and leasing of a 500,000 square foot office project and various other projects valued in excess of $140 million.

Mackenzie also worked for two years with LPI's Western Canada office in Vancouver where he managed the design, construction and leasing of commercial office, retail and warehouse projects totaling more than 500,000 square feet. Previously, he served for four years as a real estate consultant for Vancouver based Canadian Property Consultants.

Inspired by his international background and a commitment to providing his local clientele with the latest in global design and development trends, Mackenzie is affiliated with a variety of real estate and business organizations. These include the Economic Development Corporation of San Diego and Los Angeles Counties, the San Diego and Torrance Area Chamber of Commerce, and the National Association of Industrial and Office Parks.

An advocate of responsible development, Mackenzie was instrumental in the formulation of Gascon Mar's policy of meeting client, government and public demands while simultaneously pursuing sound land use planning, building design and financial management.

Mackenzie lives with his wife, Robin, in San Diego. When not active with his development and redevelopment projects, he enjoys, tennis, squash, sailing and various community support and personal development activities.

NEIL D. GASCON
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BIOGRAPHY

Neil D. Gascon is one of two partners of Gascon Mar Ltd., a California limited partnership combining the multi-faceted residential and commercial abilities of San Diego-based Chantal, Inc. with Mar Development Corporation, a mixed use development and investment concern founded by Allan W. Mackenzie. In this capacity, Mr. Gascon, a California native, is able to draw upon a personal real estate portfolio encompassing residential, commercial office and industrial/R&D projects valued in excess of $300 million.

A noted Southern California real estate developer, Gascon formed Chantal, Inc. in 1982 to assist California and Arizona landowners in all phases of large-scale property development, including land use entitlement, plan adoption, implementation, construction and financial performance.

Since its inception, Gascon's company has been responsible for 600 single family housing units, 700,000 square feet of commercial office/retail space and several high profile mixed use complexes. Paramount among them are the 35 acre Otay La Media retail center and 84,000 square foot Sabre Springs Business Park projects in San Diego; the 242,000 square foot Torrance Center I; Torrance Center II, with 36 acres of mixed use space; the 152,000 square foot Gramercy Plaza in Torrance; and various residential and retail projects in Phoenix, Arizona.

A certified public accountant with seven years of accounting and auditing experience, Gascon began his rise in real estate in 1973 as Chief Financial Officer of the Penasquitos Corporation, then San Diego's largest real estate development firm. Within 18 months, he was promoted to Executive Vice President. During Gascon's tenure, Gascon was responsible for the preparation and implementation of a business plan which successfully provided for the liquidation of real estate assets which included hotel properties, bowling alleys, cable television systems, golf courses, 800 for-sale residential units, 2,500 apartment units and undeveloped land totaling approximately 14,500 acres. After successfully orchestrating a $100 million cash buyout of the company by Genstar Corporation in 1978, Gascon became president of Genstar's new development subsidiary, Penasquitos Properties.

Highlighting Gascon's four year tenure as president of Penasquitos Properties was the planning, development, sale and administration of six San Diego County community plan areas totaling more than 10,600 acres. With Gascon at the helm, Penasquitos Properties realized total pre-tax profit of more than $90 million on gross revenues of $278 million.

Despite maintaining active development projects inside and outside the Gascon Mar partnership, Gascon devotes considerable time to a number of professional organizations, including the American Institute of Certified Public Accountants, California State Society of Certified Public Accountants, Building Industry Association of San Diego County, University of San Diego Ambassadors and University of California Advisory Committee, Department of Business and Management.

An accounting graduate of San Diego State University, Gascon lives with his wife, Terry, in San Diego. The couple have four children and enjoy skiing, tennis and travel.

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PROFESSIONAL PROFILE

Professional Achievements

San Diego County, California

- Planning, development, sale and administration of approximately 9,500 acres of land in six separate community plan areas within the city of San Diego, as follows:

Community Plan	Project	No of Acres
Rancho Bernardo	Bernardo Heights	1,016
Penasquitos East and Penasquitos West	Rancho Penasquitos	5,173
Mira Mesa	Mira Mesa/The Ridge	1,087
Sorrento Hills	Sorrento Hill	388
University City	University City	943
South Bay Terraces	South Bay Terraces	921

- Obtained land use entitlements to approximately 19,500 residential dwelling units and 296 acres of commercial/industrial properties in the city of San Diego.
- Obtained land use entitlements, including receipt of California Coastal Commission permit, for the Lopez Ridge project, a 1,400 dwelling unit planned residential project on 228 acres of land adjacent to the Penasquitos Canyon Regional Park in Mira Mesa, San Diego.
- Obtained city of San Diego approval to commence the planning of 388 acres of land currently referred to as Sorrento Hills.
- Implemented the Bernardo Heights development plan, substantially completed the grading and installation of the infrastructure, including an 18-hole golf course and community recreation facilities to serve this 1,018 acre, 3,600 dwelling unit project. Successfully commenced sales of developed commercial and residential sites to merchant builders during the construction process.
- Construction and sale of 48 single family residential units.
- Construction and sale of a 7,500 square foot office building.
- Acquisition and development of 108,000 square feet of research and development and office space.
- Acquisition, planning, rezone, and subdivision of 75 acres in Escondido, California.
- Construction and sale of 211 single family residential units in Escondido, California.
- Acquisition, planning, rezone and subdivision of a 30 acre parcel to a mixed use commercial park.
- Acquisition, planning and development of an 84,000 square foot Phase I multi-tenant industrial park.

Phoenix, Arizona

- Consummated the formation of a joint venture for the development and sale of the approximate 2,700 acre Pima Ranch in Phoenix, Arizona.
- Planned, rezoned and developed 8 acres for a 192 unit apartment complex.
- Planned and developed a Specific Plan for a 48 acre parcel. The project included approximately 400,000 square feet of office space, 100,000 square feet of retail commercial, and 2 free-standing bank sites, as well as an alternative for a 300-room luxury hotel.
- Developed a Specific Plan for a 40 acre site; replanned from industrial use to a mixed use of retail commercial, multi-family residential and attached townhouse units.
- Acquired and processed land use entitlement of 25 acres for development of 20 acres of retail commercial and 5 acres of multi-family residential property.

Los Angeles County, California

- Planning, rezone and development of a 12 acre site in Torrance, California; constructed a business office park consisting of five office buildings.
- Planning, rezone and development of a 36 acre former oil refinery site for sale to merchant builders.
- Planning, development and construction of a 152,000 square foot 4-story Class A office building in Torrance, California.
- Acquisition, planning and development of a 76 acre former refinery site in Carson, California, including land use entitlement, supervision of environmental characterization and remediation, and construction of site improvements.
- Formation of a public/private redevelopment project in historic downtown Torrance containing approximately 179 residential units and 36,000 square feet of retail space. Included land assemblage, acquisitions, demolition and/or rennovation of existing buildings, asbestos abatement, and construction.

Employment History

1966 to 1973	Certified Public Accountant with Arthur Young and Company and S.D. Leidesdorf
1973 to 1978	Executive Vice President/Chief Financial Officer of the Penasquitos Corporation.
1978 to 1982	President of Penasquitos Properties, a division of Genstar Development, Inc.
1983 to Present	President of Gascon Development, Inc.
1985 to Present	Principal, Gascon Mar Ltd., a California limited partnership.
1989 to Present	President of Chantal, Inc.